the MANAGEMENT REVIEW

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MARCH, 1949

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AMERICAN MANAGEMENT ASSOCIATION

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the MANAGEMENT REVIEW

Volume XXXVIII No. 3

MARCH, 1949

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General Management

Television—Present and Future

IN THE past 12 months, television has grown faster than any other major industry ever to appear on the American horizon. This growth has been sound and stable, and has taken place in every phase of the business.

The growth of radio in the past 25 years has been remarkable. Today's radio listening audience totals more than 100 million. Americans own around 75 million radio receivers. Nine of every ten American homes have at least one receiver, and many have three or four. Their programs are provided by more than two thousand broadcasting stations.

Television is growing much faster than did radio in its early days, and is practically certain of matching the radio record in considerably less than 25 years. In the first nine months of this year, for example, the industry produced 500,000 receivers, as compared with 85,000 over the same period in 1947. The output of these first nine months was 70 per cent of the total of 703,000 receivers built since the end of the war. Moreover, 40 television stations are now operating in 24 cities, an expansion of 400 per cent over the total one year ago.

In March of 1947, 25 advertisers were sponsoring television shows. In October, one year ago, the number had risen to 140. Today, the total stands at 475, and by the end of the year it will be well beyond the 500-mark. Already, an average of 40 per cent of the time of operating stations is sponsored.

Now, some may ask, *why* are advertisers moving so rapidly into television? Measured by circulation and unit cost, television today falls well behind other national media. But measured by *effect,* its power is tremendous. In radio, 1 per cent response to advertised offers is cause for rejoicing. Three per cent is outstanding. Many examples have shown television response running as high as 40 per cent.

Commercials on television result in sponsor identification up to 35 per cent for a single program. Seventy and 80 per cent are frequent figures for regular weekly shows.

National advertisers, seeing this power demonstrated, and foreseeing its great potential, have two prize reasons for taking up television now.

First, they want to learn how to make the most of the selling power television offers. Its whole technique is widely different from any other, including radio. Time and effort *now* may result in marked advantages later on.

Second, they want to be in position to secure the best broadcast hours, as for example in radio, the Jack Benny franchise on Sunday night, or the Lux Radio Theatre on Monday night. It now seems probable that, within the next year or two, *all* the favored nighttime hours on major television stations will be taken.

Distributors, too, are among the sponsors. Distributors say their shows not only sell goods, but equally important, *sell* dealers on *them*—dealers

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they now have, and dealers they *hope* to have.

The medium has appealed, also, to suppliers of services, as well as goods. Of 42 general classes of television users, banks and insurance companies rank *tenth*. Bankers and insurance investors, as a rule, are strangely averse to playing "long shots." They rather like to feel that a proposition is sound before they invest. Here, if it is needed, is ultimate proof of the soundness of television's future.

We can assess that future most clearly by multiplying the sales power it is now demonstrating by some conservative estimates of its scope a few years hence.

By 1951, annual receiver production can be expected to reach two million units, and be going up. By 1953, the total sets in use may be more than 12 million, with some 50 million persons in television's day-to-day audience. By 1958—in ten years—the number of sets can be at least 40 million, with the total regular audience at 100 million.

These sets will be *in homes of every kind,* because lower prices, through volume production and engineering and manufacturing advances, will place them at the finger-tips of the full mass market.

Constant technical progress will keep programming, transmission and reception in full step with these expansions in circulation and coverage.

A milestone in this progress will be color television. But this, like other advances, will *not* obsolete sets already in use. Current receivers will pick up color transmissions as black and white, and devices may be available, for installation at nominal cost, to convert existing receivers to color reception.

When we speak of television as a factor in marketing, we usually talk in terms of its welcome presence in the homes of millions of people. But it will be utilized in other important ways.

Constantly greater use will be made of "closed circuit" televisions: that is, for example, television within a department store, for sales promotion.

Since these telecasts are piped only from floor to floor by cable and do not go on the air, they are not regulated by the government, and users may install them as they wish. Hundreds of big stores across the country can, and probably will, take up this new aid to sales.

Experience to date has shown that intra-store television may increase store traffic by as much as 30 per cent, of which 10 per cent will be completely new customers.

It has promoted the sale of merchandise distant from the heavy traffic centers of the store, and some items have shown sales increases up to 200 per cent of normal. Twenty-five per cent of persons buying goods have purchased articles they had not planned to buy.

Among further ways in which television will mesh with our economy are industrial applications, transportation and teaching.

By 1953—less than five years from now—television, in all its ramifications, may be expected to give employment to one million persons, and will have injected an investment of *at least eight billion dollars* into the economic bloodstream of America.

Within our nation, and eventually we may hope, *between* nations, television will take its place as a vital force in recreation, education and commerce. Therefore, to all of us in business, the coming effect on our whole field of activity should be something of more than casual interest now.

From an address by R. C. Cosgrove before the *20th Annual Boston Conference on Distribution.*

What the Factory Worker Really Thinks

THE factory worker wants his wages to go up and down with the cost of living. This fact, and several others, were spotlighted in a recent *Factory* survey to determine current opinion of non-supervisory workers in manufacturing industries.

Specifically, three workers in four (76 per cent of those polled) want their wages tied to the cost of living; 17 per cent do not; 7 per cent "don't know."

Workers were asked: "When a company adopts better methods and better tools, it may cut costs. If it does, which should it do first: lower selling prices, increase wages, put the savings back into the business, or pay more dividends to stockholders?" Thirty-one per cent of all workers surveyed said prices should be lowered; 39 per cent, however, said wages should be raised first. Thirteen per cent said savings should be reinvested; 4 per cent said the company should pay dividends; 13 per cent either didn't know or gave answers other than those offered. It is interesting to note that the percentages for the same replies—in the same order—broken down according to union affiliation show up as follows: non-union workers 25, 44, 14, 2, 15; union members 33, 36, 12, 5, 14.

The study indicated that two workers in three have no suggestions on how their companies can cut costs without reducing wages. This can mean one of two things: It can mean that management is doing such a good job that there are few remaining opportunities to cut costs, or it can mean management has failed to instill cost-consciousness in employees. *Factory* believes that, in the great majority of cases, the second of these two explanations is closer to the truth.

Workers in New England and workers in plants having fewer than 100 employees are most likely (17 per cent in each case) to suggest modernization of machinery, adoption of better production methods. Union members were more than twice as likely as non-members (7 per cent and 3 per cent, respectively) to say "Get rid of unproductive employees." Only 54 per cent of New England workers had no suggestions, as against 67 per cent in the West.

Almost half (46 per cent) of all workers believe a man should do only an "average" amount of work. Regional variations in replies, however, are sharp. In the East-North-Central section, only 34 per cent say "as much as he can"; 60 per cent of these workers say "average amount." The corresponding figures for workers in other sections: South, 65 and 30 per cent; New England, 47 and 49 per cent; Middle Atlantic, 52 and 54 per cent; and West, 56 and 42 per cent.

Workers who replied that a man should turn out only an average amount were also asked, "what would happen if he turned out more?" In reply, a heavy majority of workers predict rate-cutting and other disadvantages.

One worker in six thinks his company is charging too much for its products, and two workers in six believe the government should place a limit on the profits their companies make.

One worker in five is prepared to strike for a wage increase in 1949 unless the cost of living drops, though 55 per cent of the workers who have been on strike at some time since the end of the war believe the gains were not worth the sacrifice.

The percentage of workers expecting more strikes in 1949 has fallen for the fourth successive year, however. In *Factory's* 1945 survey, 74 per cent of all workers polled expected more strikes in the year ahead. In the '46 survey, 43 per cent believed there would be more strikes. By 1947, the figure had fallen to 35 per cent, and only 22 per cent of workers in the current study expect more strikes. On the other hand, 37 per cent of workers polled in the current survey predict fewer strikes, while 14 per cent expect the same number.

—*Factory Management and Maintenance* 11/48

The Vacation Paradox

MANY of us take our vacations at the wrong time. The traditional two weeks in the summer don't make much sense from a medical standpoint, because business naturally slackens during the hot weather and you need rest most when workloads are heavy. According to Mayo Clinic studies, deaths from heart failure are most frequent in December, January, and February in the North—and if you have only two weeks, the cold-weather months are the best time to get away from it all.

Furthermore, it's better to take a few days off every now and then than to use up the entire two weeks or more in one trip.

—DR. PAUL D. WHITE (world-famous cardiologist and a founder of the American Heart Association) in *This Week Magazine* 2/27/49

If Recession Comes

BUSINESS MEN everywhere, it appears, are keenly aware of the possibility of a recession. They are also aware that even a comparatively minor drop in business would force adjustments — and quick adjustments — to keep them from going in the red. But business men are also calmly confident of their ability to meet any unfavorable development that they consider possible in the immediate future.

The author, in a recent survey, interviewed many executives, posing the questions: "Could you adjust your business to a recession? What would you have to do? How would you do it?" Answers suggest that a new recession would not catch the country unprepared.

Techniques for meeting the challenge are various, but the general opinion seems to be that wages, cost of materials and the other costs of doing business have risen faster and farther than selling prices could follow, making it necessary to depend on greater volume at a narrower profit margin to keep earnings up. The solution would appear to be a planned program to acquire more efficient plants and to install labor-saving equipment *before* any recession may strike.

A Boston bank president called attention to this trend in his area. "Our industry has been investing more in efficiency than in expansion," he said. "It is not so much interested in new plants as in better plants, because that means lower costs. This would be urgently important in a recession." It was his view, in fact, that the very awareness business men are showing may well be a strong factor in staving off a recession.

Most business men, it is indicated, are keeping their commitments modest and watching inventories closely. And most companies are making every effort to keep accounts receivable on a current basis, while many are setting up reserves as a protection against possible losses by bad debts.

But these are only precautionary measures. If recession comes, what then? Almost as if it were a password, the first answers you get are: "Reduce overhead. Bat costs down."

For the details, let's get down to cases. Take, for example, the Connecticut machine tool manufacturer who went into the postwar period with such a big backlog of orders, that the company built up to a peak volume four times that of prewar. Production is based on a careful survey of potential business every three months, and has now receded 16 per cent from the peak.

"We have not had to lay off any employees because of that drop," the head of the company said. "Normal terminations have automatically adjusted our working force to the drop in production. To counteract such inevitable drops we maintain sales research and new products engineering departments, and through their efforts we have introduced new products. If we hadn't, our total drop in production from the postwar peak would have been about 25 per cent."

Yet, this alert manufacturer admits, trying to combat a recession with new products would surely not be enough. Production volume would still fall—probably sharply. And, like so many others, he is operating on a narrowed profit margin, depending on high volume to keep on making money.

He has therefore worked out detailed blueprints of the adjustments that would have to be made at different levels of production to push the break-even point down. These tentative budg-

ets indicate what inventories, cash, accounts receivable and overhead should be at various levels of production; but since labor is the major cost item, it is here that the major adjustments would have to come.

Normal terminations of employment, this manufacturer figures, would automatically take care of any decline in production up to 10 per cent in a year, but any decline in excess of that would have to be met by reducing production hours. As current production is on a two-shift, 40-hour basis—75 per cent on the first shift, 25 per cent on the second—elimination of the night shift would be one of the first steps. This would not necessarily mean laying off 25 per cent of the employees, as normal terminations would account for about half the reduction in a year's time, and night-shift operators could be transferred to the day shift. Any further drop in volume below 25 per cent of the peak, however, would require a change to a 32-hour week, according to his plans, with a consequent reduction in take-home pay. And any reduction below the 50 per cent level would necessitate reduction of employees in direct relation, since operation under 32 hours weekly is uneconomical.

Asked about wage cuts, he said that he didn't think he would be able to get any wage cuts accepted by the union until things were really bad. Executives' salaries, on the other hand, would be hit early. But he wouldn't figure on any cut in hourly rates until it was pretty obvious that it had to be done—or else! That, incidentally, was the general opinion found among most business men.

One Connecticut hardware manufacturer said that, instead of reducing his work force, he would go on manufacturing and building up his inventory as long as he could afford to do so—or, at least, until it became evident that the recession was to be of long duration. "Too many business men," he insisted, "don't understand the impact of their own actions. They lay off help, the government has to take relief measures, taxes go up, and the load impedes recovery." A number of other manufacturers spoke also of the possibility of maintaining production and letting inventory pile up, at least for a while, in order to hold their working organizations intact. One, a Missouri manufacturer of theater supplies, declared that before he would resort to layoffs, he would cut advertising, curtail his sales force, and tighten up on everything from light bills to paper clips.

Yet the head of a large Rhode Island machinery company asserted that advertising and sales were the items that he definitely would *not* cut. "I'd put on salesmen — not fire them," he said. "That's what we did in the big depression, and the result was that we came back afterwards with a bang, and quick. I would also try to keep the research and development programs going full blast. I would try to keep our line up to date, and to expand it where this was sound and desirable. And I would make periodic reviews of selling rates to make sure they were in line with costs and the market. In other words, I would try not only to reduce the costs of doing business, but I would try to sell more goods."

Wondering how a thoughtful labor leader might react to the questions put to business men, I visited one of the top union officials in Massachusetts, and found him in complete agreement that labor, in a recession, would have to face up to what he called "the grim, hard business of dollars and cents." Many unions, he insisted, are trying right now to stimulate greater effi-

ciency in order to offset any drop in business that may be ahead, and very few of them would refuse to pitch in and help solve productivity problems in a recession.

As to just what concessions unions would be willing to make, he was of much the same opinion as most business men. Hourly basic wage rates, he thought, would not be allowed to drop unless there were a substantial drop in the cost of living, though the total take-home pay would be cut by adjustments in hours. Labor, he believed, might be willing to forego some of the "fringe matters"—things like clean-up time, smoking time and vacations. But he was sure there would be great resistance to abandoning or compromising the seniority rules which many workers consider their basic security.

If recession comes, it is not going to be fun. Yet business men can still joke about it—which is perhaps even better proof of their confidence than anything else. One of them gave these definitions: "A recession is a time when you have to tighten your belt. A depression is when you no longer have any belt to tighten. And, boy, when you lose your pants, too, that's a panic!"

BY ARTHUR BARTLETT. *Nation's Business,* January, 1949, p. 29:4.

An Aid to Industry

MEXICAN Indians will have better corn flour to make tortillas, and the United States will have new machines for nuclear energy research—as a result of the past year's work at Armour Research Foundation.

Armour was created 10 years ago at the Illinois Institute of Technology as a non-profit research organization to make scientific studies at cost for anyone—from private industry to governments. A decade ago, it did about $250,000 worth of investigation a year, with 100 workers. Last year, its volume of projects was $3,380,-000, and it had a staff of 640.

The Foundation's annual report for the year ended August 31, 1948, gives a striking picture of the myriad ventures that are keeping modern scientists busier than ever before.

Latin American governments come to Armour for new ideas to bolster struggling economies. Still primitive nations—Mexico, Haiti, Puerto Rico—ask what can be done to turn little-known fibers with names like zacaton, sansiviera, or coir into useful industrial goods.

At the other end of the scale, the Atomic Energy Commission wants equipment with "rotating shaft devices operated through synchronous magnetic clutches with speed remotely controlled." This is to process highly radioactive and dangerous nuclear energy materials.

Closer to the consumer, Sterling Drug wants an instrument to measure the glossiness of teeth, to show the merits of the firm's new Lyon's tooth powder.

A maker of modern furniture turned to Armour to find out how to make more comfortable, cheaper chairs from molded fibers and plastics.

These problems were solved, or in the process of being solved, by Armour's staff during the past year. Over 110 industrial organizations and 20 government agencies took their dreams and their troubles to the Foundation for a solution.

Some jobs for industry that Armour is currently working on include studies of freight car performance for the Pullman Company, better soaps for Cudahy and Procter & Gamble, and better sewing machines for the National Sewing Machine Company.

And, incidentally, the city of Chicago wants Armour to show it how to be less noisy and cut down its smoke.

—*The Wall Street Journal* 2/7/49

Workers Appraise Their Financial Well-Being

THOUGH unions are organized to obtain quick and broad wage increases, union members do not consider themselves so well off in today's scale of living as do non-union members who have had to rely on themselves. This was ascertained in a recent nationwide survey made by the Psychological Corporation.

The question asked was: "Is your family more prosperous or better off today than two years ago, less prosperous, or the same?"

Replies break down percentage-wise as follows: 29 per cent of union members surveyed thought they were less prosperous; 68 per cent, more or as prosperous; 3 per cent, uncertain. Replies of non-union workers, broken down the same way: 25, 71, 4.

Results of the survey were also broken down percentage-wise by the four principal economic groups, as follows: Of the owners and managers surveyed, 25 per cent thought themselves less prosperous; 72 per cent, more or as prosperous, 3 per cent were uncertain. White-collar workers, in the same order 25, 71, 4. Skilled Workers—27, 69, 4. Unskilled—27, 69, 4.

Thus white-collar workers consider themselves better off than do the large group of skilled and semi-skilled wage workers, where unionism is heaviest. This may be partly because of the steadiness of white-collar work as contrasted with the time lost by wage earners through strikes, material shortages, and indirectly through labor disputes in related industries.

A Nickel an Hour

A NICKEL an hour—that's about the average wage boost industrial workers will get this spring, according to those Washington soothsayers who will hazard a guess. Federal wage experts don't like to be pinned down to a specific figure. But they agree some wage hikes are in the cards.

The five-cent figure voiced by some government experts as a likely average for across-the-board wage boosts this spring may be part prediction and part hope. The Administration is expected to endorse and support demands for wage increases "wherever they can be granted without so increasing costs that higher prices or more layoffs result," as one spokesman puts it. He expresses the view that some wage increases are necessary to keep purchasing power up, and this is the line the Administration is expected to take come spring. A sharp rise or fall in prices, of course, could drastically alter this policy.

Scrambled in with the expected 1949 pay raises—or in some cases substituting for them—will be more than the usual number of welfare grants and other "fringe" benefits, officials believe. These will include such things as shorter working hours or longer vacations with no cut in weekly pay. As one Labor Department wag remarks, the "fourth round" of pay boosts won't be much more than "a flurry with a fringe on top."

A glance at some settlements reached last fall and early this year offers further evidence of what can be expected this spring:

Some 70-odd settlements in the metal-working industries during January reported by the Bureau of Labor Statistics show wage adjustments ranging from no increase at all to 15-cent-an-hour boosts. One firm, Lincoln Electric Company of Cleveland, cut its workers' wages approximately 3 per cent in accordance with a clause hitching pay to the B.L.S. consumers' price index.

Construction workers—mostly in AFL unions—on the other hand, have been setting a brisk pace in wage increases during the fall and early 1949. Settlements during this period include pay boosts ranging from 10 cents an hour to 35 cents an hour.

—PHILIP GEYELIN in *The Wall Street Journal* 2/28/49

• COMMUNITY RELATIONS get a headstart in towns where employees of Permanente Metals Corporation live. Company is interesting workers' children in the plant with a "What Does Your Daddy Do?" contest. Kids send in drawings showing their fathers at work; best entries win bikes, buggies, other treasures.

—*Modern Industry* 12/15/48

Industry's Old-Age Problem Has Many Aspects

RECENT advances of medical science in lowering the infant mortality rate, easing the problems of the so-called "degenerative" diseases, and checking sickness epidemics have played a major part in increasing life expectancy in this country. These factors, coupled with a drop in immigration, have caused a marked shift in the distribution of our population from youth to the older age groups, thus placing definite responsibility on economists and sociologists to modify or completely revamp present working conditions.

By 1960, Dr. Louis I. Dublin of the Metropolitan Life Insurance Company estimates, more than three-fourths of all deaths will be at age 45 or higher, and the proportion will rise to more than nine-tenths by the end of the century. In the same vein, Dr. Theodore G. Klumpp, of the Winthrop Chemical Company, estimates that this country will have not less than 163,000,000 persons by the end of 1980. Of these, he said, 21,000,000 will be 65 years or older.

With the rise in the cost of living, the government social security program is totally inadequate to sustain the living standard of millions of aged persons; and millions of others, who have been pensioned after reaching 65, are finding their pensions, funded in normal times, are now far short of meeting the standard of living.

Who, then, is going to assume the responsibility for future pensioners? Government, or industry, or both?

The Institute of Industrial Medecine of the New York University-Bellevue Medical Center, under the direction of Dr. Anthony J. Lanza, recently made a cross-section spot check of 14 leading companies in New York City, whose administrative policies directly or indirectly affect approximately 500,000 employees, to find out how top management felt, and what steps were being taken to combat a problem which may well become increasingly significant within the next 10 to 20 years.

This survey of business executives' opinions reveals that: (1) Due to economic circumstances unforeseen when existing regulations were adopted, the entire retirement and social security system now needs close scrutiny. (2) Industry does not yet have the answer to the problem of maintaining a retirement plan flexible enough to adjust itself to unusual increases in the cost of living. (3) Workers 45 and over in industry have proved themselves superior in most respects to the younger worker.

Though many farsighted companies had adopted retirement plans prior to the establishment of government social security, many such plans had their advent at the same time, while others were adjusted to conform to the pattern set by the government.

A majority of these plans are funded to take effect at 65 for men, and 60 or 55 for women, though almost invariably retirement boards or committees set up for that purpose have shown a tendency to relax the restrictions where the individual concerned is considered indispensable to the company. The decision, however, has depended entirely on the mental and physical stability of the applicant, as a first requisite. As another recourse, many companies retain such an individual on a consultant status, usually from year to year, with 70 years as a prevailing maximum.

Indicative of the rise in importance

of human relations was management's awareness of the necessity for a general program to prepare the individual for retirement. Generally speaking, these plans fell into three categories: (1) cultivation of gainful "hobbies" as part of the in-plant educational program; (2) setting up of committees with the responsibility of actually preparing "careers after 65"; and (3) "easing off" of duties to prepare the individual for his retirement years.

One company has instituted a "hobby" program among its employees, which is annually climaxed by a "hobby show" for general show-off of attainments in this field. Photography, bee-culture, electronics, needle-point, painting and many other hobbies have served to create and bring out hidden talents. It is interesting to note that 658 persons have been with this firm more than 40 years. Company policy was outlined as a definite effort to educate the employee to insurance, retirement, savings, and hospital and surgical benefits, and to start preparing early for retirement.

Though other companies had not actually formalized such a program, house organs and company bulletins had been utilized to keep the employees conscious of the future. Invariably the nearness of retirement was the occasion for a review of the individual's case by the board, and often a personal interview was necessary to study the case. A majority of executives revealed that such studies were usually instituted around age 60, with succeeding efforts each year until actual retirement hearings. Emphasis was put on maintaining flexible and receptive minds.

The three principal needs for successful retirement were found to be: some degree of financial independence, good physical and mental condition, and an active interest in the future and life in general.

Psychological factors noted among pensioners included: loss of prestige, largely among the "push-button" type of worker; lack of a dominant outside interest; and mental anxiety because of the financial hazard. Some stress was also noted during the "easing off" process on the part of individuals who were conscious of being "pampered," many workers preferring to maintain their ordinary working pace until retirement.

Several executives admitted their organizations were giving some thought to lowering the retirement age to 60 years on the basis that present-day working "pressures" made it advisable. Such a move under present-day plans, it was pointed out, would entail a major increase in pension costs to the company, based on current actuarial figures.

One company executive advocated voluntarily basing all retirement on mental and physical condition—a move which has been strongly urged by some authorities, who believe the physiological factor, rather than the chronological, should be paramount.

By L. A. Hollingsworth. *Employee Benefit Plan Review,* Fall, 1948, p. 18:3.

• KEEPING IN TOUCH WITH RETIRED EMPLOYEES: Du Pont has a staff which visits each pensioner at least once a month. Management has also set up a special "kitty" to supplement pension money for old-timers who have run into extra expenses such as payment for illness. Shell Oil, which has a model pension plan in operation, has just granted a "cost-of-living" increase to "retirees."

—Lawrence Stessin in *Mill & Factory* 2/49

The Fifteen Great Wastes

LOOKING through some old newspaper clippings the other day, we ran across an interesting speech on waste in industry, delivered by Herbert Hoover when he was Secretary of Commerce. Mr. Hoover said that industrial wastes could be roughly classed in the following 15 categories:

"*First.* Waste from speculation, relaxation of effort, and extravagance of booms, with the infinite waste from unemployment and bankruptcy which comes with the inevitable slump.

"*Second.* Waste from excessive seasonal character of production and distribution.

"*Third.* Waste caused through lack of information as to national stocks, of production and consumption, with its attendant risk and speculation.

"*Fourth.* Waste from lack of standards of quality and grades.

"*Fifth.* Waste from unnecessary multiplication of terms, sizes, varieties.

"*Sixth.* Waste from the lack of uniformity of business practices in terms and documents, with resultant misunderstandings, frauds, and disputes.

"*Seventh.* Waste due to deterioration of commodities.

"*Eighth.* Waste due to inadequate transportation and terminals, to inefficient loading and shipping, and unnecessary haulage.

"*Ninth.* Waste due to disorderly marketing, particularly of perishables, with its attendant gluts and famines.

"*Tenth.* Waste due to too many links in the distribution chain, and too many chains in the system.

"*Eleventh.* Waste due to bad credits.

"*Twelfth.* Waste due to destructive competition of people who are, in fact, exhausting their capital through little understanding of the fundamentals of the business in which they are engaged.

"*Thirteenth.* Waste due to enormous expenditure of effort and money in advertising and sales promotion, without adequate basic information on which to base sales promotion.

"*Fourteenth.* Waste due to unfair practices of a small minority.

"*Fifteenth.* A multitude of wastes in use of material, in unnecessary fire destruction, in traffic accidents and many other directions."

—***Management Briefs*, No. 23 (Rogers & Slade)**

The Fourth Round—Wages and Prices

TO determine how fourth-round wage increases will, if granted, affect the prices of manufactured goods, *Mill & Factory* recently surveyed all types and sizes of manufacturers. Principal findings are presented below:

1. The selling prices of their products will have to be increased if their employees demand and get a 10 cents per hour wage increase, 87 per cent of respondents state. This increase would range from 1 up through 10 per cent for 94 per cent of those replying they would have to increase prices.
2. Of those who said they would not have to increase their selling price, 43 per cent state they would absorb the higher costs out of profits, and 23 per cent say they would reduce employment to offset over-all increased labor costs. A reduction in "fringe" payments to care for increased labor costs is cited by 15 per cent as their plan for not raising prices.
3. Ninety-five per cent state it has been their experience that an increase in wages does not result in a corresponding increase in labor productivity.
4. Even though the minimum wage rate should be increased by law to 60 cents per hour, the selling prices of their products would not have to be increased, 95 per cent of the respondents state.

—***Mill & Factory* 2/49**

• THERE ARE OVER 2,000 employer associations in the United States concerned in one way or another with labor matters.

—MILTON BLUM in ***Industrial Psychology and Its Social Foundations*** (Harper, 1949)

Office Management

Prospects and Problems on the White-Collar Front

A SIZABLE sum of money has been earmarked by organized labor for its drive to unionize office employees. Present indications are that there will be unusual activity all along the white-collar front during the next 12 months, and wide-awake management is reviewing, and critically, its industrial relations policies in regard to clerical help.

In the main this will be the union argument: Pay for office workers has lagged behind factory wages, and increases can be secured through organization; promotional and seniority rights will be protected; better sick-leave, vacation, insurance, and pension plans will be won; standard grievance procedures will be installed. This line is fundamentally the same as the one used in the plant, but it will be slanted up, and played with overtones of "job security."

And it will find listeners—for attitudes are changing. Many clerical employees, now back on their old jobs, joined unions when the war pushed them into the factory. In too many instances, their postwar office salaries have not kept pace with the wages of their friends in the shop. Moreover, there is a growing social awareness among them. The fact that 15 per cent (according to highest estimates) of all office employees even now carry union cards reflects this trend.

Certainly, management has a definite responsibility toward its office people. They are individualistic in their thinking, their outlook is vertical, for the most part they are ambitious and career-minded, and from their ranks come many of tomorrow's top management replacements. Prestige and recognition are important to them. Their future course of action will depend largely on the wisdom of management's industrial relations policies as they apply to the man in the white collar.

This requires skill and planning. Proper supervision is, of course, the key. Fundamental in carrying out any constructive industrial relations program, it is especially vital in relation to office workers.

Now is an excellent time for companies to examine the entire problem thoroughly. Answers to the questions below will offer a good index of the completeness of a firm's personnel policies. The appearance of a question in this check list does not necessarily mean the program it involves is essential to sound industrial relations. The questions are presented simply as a guide for management, to facilitate careful self-analysis. Some companies may have no formal plan but still do in essence all that the following list encompasses:

1. Is the over-all industrial relations program for white-collar employees sound, constructive, and effective?
2. Do the supervisors understand its objectives and the role they play in accomplishing them?
3. Is there a working two-way communication system between top management and its office employees?
4. Is there an integrated and comprehensive training program for supervisors?

5. Does it include all levels of management?

6. Does the training program stress the importance of human relations in the successful operation of a business?

7. Is the effectiveness of the program measured periodically?

8. Are personnel policies regarding office employees consistent in all departments, or left to the discretion of the executive in charge?

9. Is the plan of promotion clearly defined, and are the employees fully aware of how it operates?

10. Is a comprehensive job evaluation plan in effect?

11. If there is a merit rating plan in operation, are the supervisors trained to estimate the abilities of their subordinates as objectively as possible?

12. Are both the job evaluation and merit rating program understood by the supervisors and the employees?

13. Is the salary structure sound and balanced, and is its administration properly coordinated?

14. Is salary policy explained to the employee, or is it "top secret"?

15. Is there an unfair differential between the office worker's pay and the pay of the hourly employee in the shop?

16. When pay increases have been granted hourly employees, have the office workers received similar pay raises?

17. Are office workers often required to put in hours of overtime for which they receive no compensation when there is some question as to whether they can be properly classified as executives, administrators, or professionals?

18. Are the vacation, holiday, sick-leave, insurance and pension plans for office help consistent with those for the factory personnel?

19. Do women receive the same pay as men for the same work?

20. Is there a way for an office employee to express a grievance and for management to resolve it when it occurs?

This is more than a game of 20 questions. The company that is considering these points and reviewing its present policies is probably doing an excellent job in white-collar employee relations whether the programs are actually formalized or not. It is a never-ending task, however, and the present is no time for relaxation. If a management rests on its laurels now, it is wearing them on the wrong place.

The Associated Industries of Cleveland Newsletter, February 15, 1949.

Correspondence Time-Saver

A HIGHLY successful method for expediting the handling of routine office correspondence has been developed by J. H. Booth, vice president of the Bell & Howell Company, Chicago, manufacturers of motion picture equipment. Mr. Booth found that by making a marginal notation on the letter itself, his office was able to handle its correspondence almost immediately.

The secret to this scheme's universal approval is a printed form attached to the letter entitled "So that we can serve you more promptly." It explains in brief and friendly fashion that this informal method of answering the letter speeds up the reply by three to four days—the time taken if the conventional method of typing a formal answer were followed.

From its enthusiastic reception to date, it is possible that this simplified system will be adopted widely by other concerns.

Color and Lighting Are Office Workers, Too!

A NEW Pan American Airways clipper ship had the interior of its cabin finished in chartreuse. Result: a noticeable increase in passenger airsickness, even on *smooth* flights. On the production line of a large war plant employing many women engaged in assembling metal parts in wooden trays painted black, workers complained that the trays were too heavy to lift. In both instances, consultations with color engineers solved the problem. The clipper ship cabin was painted in a more soothing color, which resulted in a decided decline in passenger airsickness. The wooden trays in the plant were painted buff, and they immediately became lighter in weight. Both of these cases vividly demonstrate the psychological effect of color.

For many years, the duPont Company has been actively interested in the functional application of color, and has devoted much time and research to this problem. The result of this effort has produced our functional color program, which we call "color conditioning."

What can a color conditioning program accomplish? The greatest benefit to the office worker is that color can be coordinated with light to create uniform seeing conditions. Muscular eye strain is reduced by creation of a color environment of an even "brightness ratio." By elimination of sharp color contrasts, the constant pupil adjustment so frequently experienced under prevalent working conditions disappears.

Studies by lighting authorities and ophthalmologists show that the eye sees best when all areas within the field of vision (the desk and its surroundings) are approximately of the same brightness. The next best situation is where the office desk is slightly brighter than its environment — the walls and floors. The least desirable situation is that in which the background is much brighter than the desk.

In this connection, we should remember that brightness ratios within 5 to 1 are ideal, and even 10 to 1 are *permissible.* This means that the reflected light value of any given surface in an area should not be more than five times brighter than another surface; or, putting it another way, a white wall reflects about 85 per cent of light, while a black machine reflects about 5 per cent. If we divide 85 by 5, we find a ratio of 17 to 1. The contrast here is too great for good seeing conditions, and the efficiency of the worker is reduced. These are *facts,* not merely matters of opinion. They are measurable, and enable color to be engineered with real assurance of favorable results.

Color conditioning has a direct application to any business area, whether it be a machine shop or office. Properly applied, color emphasizes important elements and subordinates relatively unimportant ones; color apparently shortens or lengthens an area, raises or lowers ceilings.

The following are a few examples of color-conditioning applications. For both physical and mental comfort, rooms with northern or western exposure and which have a naturally cool atmosphere should be finished in warmer colors, such as ivory, peach, or yellow. Conversely, rooms having a southern or eastern exposure and which are naturally warm should be painted in cooler colors, such as blue, green, or gray. Consideration of exposure is certainly not new, but it is still important enough to be given

proper recognition in our program of color conditioning. Though exposure or availability of light play an important role in color selection, other factors may be of still greater influence. If, for example, central steam pipes pass through a particular room, the room stays hot throughout the year. Here a cool color scheme is naturally desirable.

Color selection for small clerical offices should be greatly influenced by the amount of available light, and the content and activity of the room. Generally, we find that such offices are crowded with people and office equipment. In order to relieve that "hemmed in" feeling and to improve visibility, a light color such as ivory will increase the apparent dimensions of the room and will also cast all available light into every corner of the office.

All other factors being equal, a large well-lit executive office offers few color problems, and it is more possible to cater to individual color preference in a room of this type. Grays, greens, and blues are widely favored by color authorities for rooms demanding an unusually impressive appearance. Any of these colors, in the proper hue, will tend to "dress up" an office and create a cheerful and refreshing atmosphere in an otherwise dull interior.

All colors used for working space in a general office should have a slightly grayish cast, to avoid undue distraction and to withstand soiling and staining. In working areas, the color effect should be on the soft and subdued side with all areas held as far as possible to a uniform brightness. Ceilings, however, for the most part should be white, to insure adequate light reflection. Further, in general office space, machine rooms, drafting rooms, and the like, where many employees may face in one direction, the end wall in direct line of vision may be specially colored. This device accomplishes a number of practical ends: It relieves glare and visual shock when the employee looks up; it provides a pleasant area to relax the eye; it breaks up the monotony of the room by giving it a different appearance when it is viewed from different directions.

One of the main disadvantages of the average office today is the conglomeration of vari-colored objects and wall decorations which meets the eye in every portion of the room. Doors, frames, baseboards, picture moldings, wall cabinets, window and sash—ordinarily painted in dark drab colors—stick out like so many sore thumbs against a light colored side wall. Desks, chairs, radiators and file cabinets are equally conspicuous.

The solution is to "paint out" all these items in either the same or a slightly darker shade of the background color. Thus a properly color-conditioned room will appear larger, more uniform and restful and will contain a uniform seeing environment. Exceptions are made, of course, where it is desirable to preserve the beauty of natural wood. This applies principally to desks, chairs, and similar equipment. But painting is recommended if this equipment is unsightly. A medium tone of gray will revitalize the furniture itself and will blend in neutrally with any colored background. It would be well to select draperies, furnishings, floor coverings, and pictures which will harmonize with your wall colors. Remember that after a scientific selection of color for a specific type of room is made, the color of articles within that room should be influenced by the wall color specified. Finally, to obtain the most dignified and restful appearance in any type of office, avoid large pro-

motional calendars and "pin-up" art. One such item centered on a wall will not only stand out meaninglessly but will nullify, to a certain extent, the benefits which the properly colored background can offer.

BY H. R. WELLS. *NOMA Forum*, July, 1948, p. 9:6.

Personnel

When Charitable Organizations Solicit Your Workers

WITH today's inflationary prices draining the employee's pocketbook, the problem of handling charitable organizations' appeals to solicit collections from workers is a delicate one for management. Moreover, management policies on charity drives can have serious repercussions in the community unless the company handles each situation with a neat blend of practicality and humanitarianism. Here's a 10-point program of "do's" and "don'ts" culled from the practices of 52 experienced labor relations directors:

1. Ban collections that have not been cleared through Personnel.

2. Limit permitted collections among employees to two or three a year. Where a drive has widespread local interest, be sure it gets a place on the permitted list.

3. Handle small requests without troubling your employees. A good rule of thumb is to let the Personnel Department deal with all requests that can be taken care of by a grant of $100 or less. Here's where you can get the company in right in the community. Give small sums to help out activities the local people are interested in.

4. Consider "coke" fund (money from vending machines) a possible source of charitable contributions. But be sure the employee committee in charge of the fund has the final say. Though workers usually feel such funds should be used for social or recreational activities, they may prefer a painless contribution from this source if a charity drive is inevitable. Sometimes the request from the charity is double-barrelled—to the company and to its employees. If management decides to give a specified amount, it can make this fact known to the workers and leave the matter of their contribution to their own discretion. A slice from the coke fund to match management's share is often the answer.

5. When you approve a drive, distribute all announcements and descriptive literature through management channels. Even the promoter should remain in the background.

6. Try to avoid payroll deductions for each charity drive. This method of collection is no longer painless. Most employees feel that present-day deductions are already too numerous.

7. Let the timekeepers handle the pledge cards, since their job duties bring them into contact with each employee. Instruct them to use tact in making collections, to avoid pressure and dunning.

8. Keep contributions confidential. Brief timekeepers or other persons who are running the drive on the importance of this factor. It's an easy way to start employee grumbling if Bill feels he will lose face if he doesn't kick in as much as Joe.

9. Support union-sponsored drives. Remember unions get requests for contributions from their members too. Where possible, agree with the union to joint sponsorship of a particular drive. And in such cases, see that the union gets its share of the credit.

10. Avoid advance commitments by top management. Sometimes an employer, at some public function, will promise a whopping sum from his company. Then if the employees don't come through in the expected manner, the company is forced embarrassedly to fumble in its own jeans for the difference. Better guarantee only the share you feel the company wants to contribute. Or confine yourself to a simple pledge of wholehearted cooperation in the drive.

Employee Relations Bulletin, National Foremen's Institute, Inc., September 30, 1948, p. 3:3.

Workers Retire with Small Fortunes

AT Sears, Roebuck & Company, employees accumulate thousands of dollars of retirement pay in a profit-sharing fund which is the largest single stockholder of the company.

On January 31, 1949, the end of the fiscal year, 96,000 employees had $216,500,-000 in the funding Sears stock, which had a market value then of $38 a share, and in cash. The fund owned 4,502,523 shares—about 19 per cent of the total.

A shipping room handler has deposited $736 in his five years with Sears, and now has $1,969 in the fund. A woman in a clerical job has deposited $1,732 in 22 years and now has $16,311. A retail salesman, in the fund for 11 years, has contributed $1,870 and has a $10,823 share in the fund.

One of the most startling cases is that of a merchandising supervisor, who retired at 60 after participation in the fund since 1916. This man deposited $7,536 and withdrew $134,423 in cash and Sears stock.

Participation is limited to $5,000 of annual salary by setting the maximum deposit at $250 each year. Thus the fund benefits the highly-paid executive no more than the worker in the $5,000 bracket. In recent years, Sears has had a different plan to permit executives to set aside part of their pay in excess of $5,000.

Every year the company places in the fund an established percentage of its profits before taxes. For the year ended January 31, 1948, the figure was $18,-848,363. Net profits after taxes for that year were $107,739,892, or $4.56 a share, and the fund also got dividends on the Sears stock it held—$1.75 on an annual basis.

Sears contributes to the supplementary fund at a rate of $1,500,000 a year.

The profit-sharing contribution is credited to employee members on a length-of-service basis. For example, employees who did not reach the five-year service mark in the calendar year 1948 were credited in the year with $1.15 from the company contribution for each $1 they deposited last year. Those with the company five to 10 years were credited with $2.30 from company profits in 1948 for each $1 they put in. For more than 10 years' service, it was $3.45 for $1. The fourth participating group, employees over 50 with more than 15 years' service, were credited with $4.60 from the company last year for each $1 they deposited.

Sears employees are eligible to join the fund after a year's service, and about 98 per cent choose to do so.

The actual money deposited by the present employee membership to amass the $216,500,000 asset value has been only $39,500,000.

Though the fund is known as a pension fund, the amount of participation is turned over in a lump sum of cash and stock to the employee on retirement. If he leaves the fund after five years, he is awarded the entire amount of participation. If less than five years, he gets only the money he deposited, plus 5 per cent interest. An exception is made in case of death of the participant.

—*The Journal of Commerce* 2/18/49

Rule Books Give the "Reason Why"

THE TREND today is away from the issuance of numerous dogmatic decrees and toward informal "reason why" explanations of company work rules, according to a study of the handbooks of 300 organizations recently completed by the Conference Board.

"In the science of personnel administration," the study points out, "more and more emphasis is being placed on the fact that employees are human beings who respond favorably to treatment as individuals. The military-type regulation is ruled out automatically."

As contrasted with a decade ago, the study finds that rules in industry today are "few." An examination of the rule books of the companies surveyed disclosed that rules "on only nine topics" appear in a majority of them. These are regulations on attendance, punctuality, registration, good housekeeping, reporting of injuries, smoking, solicitation of money, and outgoing personal telephone calls.

Some companies report that cartoons are so effective in getting rules across that they present all their rules in this fashion, with only a minimum of copy.

Most company rules relating to employees fall into one or more of the following categories, designed to: (1) promote health and safety of the employee, (2) protect employees from annoyance, (3) insure a working force of good character, (4) protect company property, (5) maintain production, (6) insure conformance with legal requirements, and (7) further good public relations.

Better Selection of College Trainees Needed

A GOOD many companies count on tapping college graduating classes for bright young trainees, but the results of a recent survey may make them take a second look at their selection techniques. A study of the job performance of 1,167 college trainees in 247 companies indicates that 42 per cent (490) of college trainees proved unsatisfactory, or left their jobs, before the end of one year.

The study, conducted by Robert N. McMurry & Co., reveals that those 490 young men represented a total of $1,347,500 out the window—on the basis of a median outlay of $2,750 a trainee for the year. In the case of one company where only 16 of 31 college trainees were still on the job at the year's end, the actual loss was $41,250.

But the report suggests that the fault may not lie so much with the college trainee as with the system of choosing a trainee. Apparently some employers put too much stress on academic record, high I.Q., and good appearance, and devote inadequate attention to testing, interviewing, and other tools of selection.

—*Business Week* 11/27/48

Lunch-Hour Movies Boost Morale

LUNCH-TIME movies are a new "wrinkle" that is proving effective in building employee morale.

At Aldens, Inc., Chicago mail-order firm, a program of 16 mm. sound movies is shown in Aldens Hall for an hour and a half during lunch periods at least one day weekly. More often, there are films two or three days each week. Ultimately, a daily program is planned.

Aldens' films are planned and booked six months in advance in order to allow a satisfactory subject selection and arrangement. The entire program is selected to present a variety of subjects, appealing to most tastes. In a representative period, films included modern musicals, old-time comedy, travelogs, symphonies, inspirational features, animated cartoons, novelties, and Western comedy. Now and then a safety or educational film is displayed. As a rule, films are limited to 20 minutes to allow more showings each day, thus enabling more employees to view a complete film during a single lunch period.

According to Jack Staehle, director of industrial relations, the program has been well received by Aldens employees. Capacity attendance greets most showings, and comments have been enthusiastic. Preferences are comedies and color travelogs; musical numbers also rate high. However, all types are enjoyed and praised. A well-rounded program must appeal to all groups that comprise the total employee group. The effect on morale has been good, though difficult to measure definitely.

Some Current Trends in Collective Bargaining Contracts

DO A MAJORITY of union contracts provide that employees will be paid for holidays not worked? Do agreements generally base promotions primarily on seniority? How frequently are paid sick-leave plans negotiated? To give union contract negotiators the answers to such questions as these, and thus to enable them to check their own contract and bargaining plans against general practice, the editors of *Collective Bargaining Negotiations and Contracts* studied a broad sampling of contracts signed since passage of the Taft-Hartley Act. Some highlights of the study findings are presented below.

Union security provisions, more than any other subject, seem to be undergoing rapid change in prevalence. Contracts signed in the first months after the Taft Act's effective date frequently dropped security clauses, but others signed more recently show a considerably higher proportion of union security provisions.

A union shop is provided by about 25 per cent of contracts, a modified union shop by 5 per cent, maintenance of membership by some 15 per cent. A sizable number of these become effective, however, only after compliance with the Taft Act. In addition, some three or four per cent of contracts specifically put off negotiation of a security clause until after the law's requirements are filled. Closed shop clauses still appear in about 5 per cent of contracts, some of which, however, are apparently in intrastate commerce.

The large number of agreements without security clauses is accounted for in part by the facts that: (1) several major unions have failed to file non-Communist oaths and cannot therefore secure the NLRB union-security authorization election required by the law; (2) many locals are now in process of securing such authorization and will shortly negotiate a security provision; and (3) some states ban such provisions altogether.

Checkoff systems, meanwhile, are functioning under nearly 75 per cent of contracts. Provisions for irrevocable authorizations are about five times as frequent as those for revocable ones.

No-strike clauses of some form or other are in more than 80 per cent of agreements. Close to three-fifths of these clauses are accompanied by one or more provisions intended to limit union liability for any violation. And attached to three-fourths of these limited-liability provisos are requirements that the union take steps to halt any unauthorized stoppage.

Seniority is the governing factor in layoffs according to almost 75 per cent of contracts; it is a secondary factor, applied only where other qualifications are equal, in 15 to 20 per cent. For promotions, seniority is controlling in 35 to 40 per cent, secondary in 30 to 35 per cent of contracts. Most of the remaining contracts do not refer to layoffs or promotions.

Other layoff practices often spelled out by agreements are advance notice (more than 30 per cent), layoff pay (5 per cent), bumping (more than 30 per cent), and work sharing (about 25 per cent). As for promotions and transfers, vacancies must be posed for bid in slightly more than a third of agreements.

Health and welfare plans of some sort appear in approximately 45 per cent. Specifically, about 20 per cent of contracts grant sick leave with pay. Almost 30 per cent provide benefit plans covering one or more types of

benefits, particularly life insurance, hospitalization, sickness and accident, and surgical expenses; close to half these contracts require the company to bear the full cost, about one in six calls for employee contributions, the remainder do not describe financing methods. Pension plans are part of some 5 per cent of contracts.

Pay for unworked holidays is awarded by more than 70 per cent, most often for six holidays. For work on a holiday, employees covered by paid-holiday clauses pocket doubletime pay under 70 per cent of these clauses, doubletime and a half or tripletime under 20 per cent. Employees who do not receive pay for idle holidays are paid for work on a holiday at time and one-half by 55 per cent of the provisions, doubletime by some 45 per cent.

Vacation provisions present numerous variations from the old standard formula of one week for a year's service, two weeks for five years. For example, about 40 per cent of contracts now provide two weeks' vacation for less than five years' service, in contrast to the 45 per cent which grant it only after five years. About 10 to 15 per cent of current contracts provide additional vacation time of between one and two weeks for those with between one and five years' service; and nearly 20 per cent grant three-week vacations to long-service employees.

Overtime pay is specified after a certain number of hours' work per day by more than 90 per cent of agreements; eight of each nine of these grant the overtime rate after eight hours' work. In addition, about 15 per cent of contracts make special premium arrangements for meals during overtime hours. Equal distribution of overtime is required by more than a third of agreements.

Premium rates for Saturday work are set in 35 to 40 per cent, for Sunday work in 55 to 60 per cent of contracts. By far the most common rates are time and one-half for Saturday and doubletime for Sunday. Sixth-day premiums are provided by 15 to 20 per cent, seventh-day premiums by 20 to 25 per cent. Shift differentials are in about two-thirds of contracts; many of these without such bonus clauses simply do not cover shift operations.

Wages may be renegotiated within less than a year of preceding negotiations under some 30 per cent of contracts. That is, 70 per cent bar changes in wage scales for at least one year. Guarantees of reporting pay are included in 75 to 80 per cent, and callback pay clauses are in some 40 per cent of contracts.

Grievance provisions place time limits on initial presentation of grievances in about 25 per cent of contracts, on processing of grievances at one or more steps in some 50 per cent. Written presentation, usually at an early stage of the procedure, is required by two-thirds of the agreements.

Pay for grievance time during working hours is granted in full by 25 per cent, and with certain restrictions by another 15 per cent. Less than 5 per cent declare such time is not paid for by the company.

Arbitration of unsettled grievances arising under the contract is provided by close to 85 per cent of agreements on request of either party. In 95 per cent of these, an arbitrator is appointed anew each time a case arises, but in 5 per cent a permanent arbitrator handles all the cases.

Length of the contract's term is one year in almost three-fourths of the cases. Terms of more than one but less than two years are provided by 10 per cent, two years or more by 15 per cent. The long-term agreements, however, invariably permit renegotiation of wage levels at least annually.

The Bureau of National Affairs, Inc., Washington, D. C., September 10, 1948.

Some Questions for Wage Negotiators

DURING the war, prices were kept down not only by artificial price control and rationing but also through consumer subsidies, ultimately financed by taxation. Wages, however, were relatively free to rise, and they went up much more rapidly than the cost of living. Because of the disparity between the wartime wage and price movements, it was inevitable that for a time in the postwar period, prices would rise more rapidly than wages.

Now that the upward pressure on consumer prices seems less forceful and is actually abating in many lines, every employer in examining his wage structure and in dealing with wage demands should consider his responsibility for the health and stability of our economy. As employers are confronted with renewed wage demands, they must consider not only what the effect of increased wages will be on them, but also on the need for more credit expansion, and especially the effect on the economy as a whole if substantial wage increases are generally granted across the board. What is done to wages greatly affects the whole economy because of their sheer size.

The following set of questions should be helpful in discussing wage problems with workers and their representatives. Spokesmen for the AFL, the CIO, and other labor groups have stated that a rise in real wages is preferable to rising money wage rates. This is sound statesmanship, and if employers generally examine the following questions with their workers, sound conclusions should be reached.

Prices and Credit Needs

1. Will this wage change delay any prospective price reduction which I intended to make?

2. Will it definitely suspend prospective price reductions which I intended to make?

3. Will it force me to put into effect price increases which I otherwise would have avoided?

4. Will it require me to keep on hand more cash to meet payrolls?

5. If my plant employees get a raise, will I have to raise the wages of foremen, office employees and others?

6. If my payrolls go up, will I have to raise additional outside cash through
   a. bank borrowing?
   b. sales of bonds?
   c. stock?

7. Will the banks, under pressure to restrain credit expansion, give me the extra credit which I need?

8. If I grant a wage increase, will my action influence other employers to take similar action?

9. If so, will I need more working capital to buy supplies and materials?

10. Will a further rise in labor costs induce me to drop some high-cost, low-margin items from production?

11. Have I encountered sufficient consumer resistance for my product

so that increased costs cannot be passed on to buyers in the form of higher prices?

12. If so, is this resistance a recent development?

13. If so, is this resistance on the increase?

14. Will the next round of wage increases raise my break-even point so as to make my business seriously vulnerable in case of reduced volume?

15. If the banks furnish additional credit, will such credit expansion, by creating new purchasing power, stimulate an upward surge in prices?

16. Will an increase in pay to my workers and those of other employers improve the supply of butter, meat, eggs, automobiles and other scarce items—the things which my employees may want to buy with the extra money?

Effect on Expansion and Employment

17. Will a further rise in labor costs induce me to drop some plans for expansion?

18. Will these two steps cause unemployment and layoffs?

19. If I grant this wage increase, will I help some workers to price themselves out of the labor market?

20. If so, will "business" nevertheless be blamed for "not putting men to work" or failing to "provide jobs"?

Labor Productivity

21. Has my plant shown any improvement in productivity, i.e., output per man-hour, in the last five years?

22. If so, how do wage increases compare with the increase in productivity?

23. Will an increase in wages decrease my ability to provide for depreciation and capital replacements?

24. Will a further wage increase enlarge the disparity of income between my workers and that of pensioners, teachers, clergymen and others in our community?

25. Will the corrections of these disparities fall as a burden upon my own employees as taxpayers (directly and indirectly) and as supporters of community organizations?

26. Is the uncertainty of successive wage rounds causing sellers to price their products so as to include an extra margin against such contingencies?

27. Will higher wage rates increase the pressure to substitute new machines and equipment for part of my labor force? Can this make much difference in our case?

28. Will this force some of my employees to find jobs elsewhere?

29. How about the jobs elsewhere, if employers generally go in for "labor saving"? Is this likely to produce an unemployment problem with all its accompanying threats?

30. Finally, all things considered would a fourth round of wage increases be good for:

a. My company,

b. My employees,

c. The national economy?

From *Management's Responsibility for Wage-Price Spirals and Economic Stability*. Prepared by The Committee on Economic Policy, Chamber of Commerce of the U. S. A., Washington 6, D. C., 1949. 17 pages.

Company Practices in Training College Graduates

At the turn of the century, industry was frequently reluctant to employ the graduate direct from college. It was held that he was not fully equipped to meet specific job needs the day after graduation. Today industry is seeking the graduate! That interval witnessed the development of company training programs designed to assist the graduate in

meeting the requirements of his initial assignment—to "bridge the gap" between the classroom and satisfactory job performance.

To get a current picture of company practices with regard to training college graduates, a survey was made, with the cooperation of NOMA, by Mr. Bernard J. Koehler. Replies were received from 124 companies in nine fields of industry. Approximately 70 per cent of the firms participating in the survey were engaged in some type of manufacturing, with the majority falling within the large-size classification.

Of the total replying, 47 per cent (58) are currently conducting training programs for the college graduate, while 53 per cent provide no organized training assistance in this field.

Presented below are some highlights of the survey findings:

1. The majority of programs are conducted in the fields of sales, production, supervisory, and office training.

2. The programs are a permanent activity of management.

3. The primary aim of the company is to train graduates for future positions of responsibility rather than an immediate job.

4. The training function is assigned to a centralized training department which conducts the program for the entire company. The training unit is under the direction of the personnel department.

5. Few personnel tests, if any, are used as an aid in the selection of the candidate. If any are used, general mental ability and personality tests are given.

6. Method of training: 80 to 90 per cent on-the-job; 10 to 20 per cent in organized classes.

7. All training is conducted by the company, and trainees are not sent to any institution for supplementary training.

8. Scope of training varies considerably for each program.

9. Average length of program: 14 months.

10. Trainee is employed for a 40-hour week.

11. An average of five hours per week is spent in organized class training.

12. Training is conducted during regular working hours.

13. Salary of trainee: Employed at a monthly salary of $200, advanced to $250 by the completion of training.

14. Salary raises are based upon the relative merits of the individual.

15. Training budgets are maintained.

16. Cost of program: $3,300 per trainee, on the average.

17. The number of candidates selected for training is based upon the future needs of the company, and no "extras" are included.

18. Average size of class: 12 students.

19. Turnover: 10 to 15 per cent upon completion of training; 20 per cent during period less than three years after completion; and 25 to 30 per cent after three years.

20. Twenty-seven per cent of the class may be non-graduates.

21. Sources of candidates, in order of importance: (a) college and university placement bureaus; (b) applications; (c) recommendation of company employees; (d) new employees; (e) private employment agencies; (f) other sources; (g) U.S. Employment Service.

22. A permanent position is guar-

anteed upon successful completion of training.

23. Follow-up interviews are held every six months for one or two years after completion of training.

Management does not foresee any radical changes developing in this field of training, but does feel the following trends are significant: (1) greater emphasis upon general rather than specific job training; (2) greater recognition by management of the need for training; (3) increased use of training aids; (4) individualized training; (5) greater use of discussion-group training; (6) mor extensive use of personnel tests.

From *The Training of College Graduates in Industry*. By Bernard J. Koehler. National Office Management Association, Philadelphia, 1948. 40 pages.

*Medical Examinations**

AN increasing number of small and medium-sized companies are following the example of the larger firms by requiring applicants to take a pre-employment physical examination. Among the advantages offered by the pre-employment physical are: placement of applicants according to their physical as well as other abilities; prevention of unjust claims for compensation due to old injuries; reduction of accident occurrence by proper placement of those who would be bad risks in some jobs; control of absenteeism caused by uncorrected physical impairments; prevention of epidemics; health education of employees; the possibility of eliminating arbitrary age ceilings, thereby widening the supply of qualified applicants.

Companies meet the cost of medical examinations in various ways: Some have a physician on their regular staff; many retain one or more physicians in the community on a fee basis; others accept a report from the applicant's family physician.

A disadvantage of compulsory pre-employment physical examinations is reluctance on the part of the applicant to comply with the requirement. To overcome objections, many companies assure applicants that they employ persons with various physical defects and that the objective is not to seek those in perfect health but rather to appraise physical capacities in order to place applicants properly, and to eliminate those whose employment in specific jobs would involve risk to themselves, their fellow employees, or the employer.

Scope of the examination is often determined by the requirements of the jobs for which applicants are being considered, though some companies give candidates a physical examination that is complete in every detail. Regarding acceptance standards, Dr. C. O. Sappington, an authority in the field of industrial medicine, urges physicians to keep in mind that people must work, and to make a sincere attempt to place everyone. Where undesirable physical conditions exist, the applicant may be employed on the basis of selective placement and supervision.

In authorizing placement on work involving non-restricted activities, the physician may recommend that the personnel department require the applicant to waive benefits under the company's plan for medical service and wage benefits during sickness and disability insofar as any disability occurring during his employment is due to the disability described in the waiver as existing at the time of employment. Other applicants too may be given a report of their physical examination, as one of the purposes of these programs is the health education of employees. A number of companies require all employees to take an annual check-up, and this, of course, is essential in the case of those on restricted placement. This practice has influenced many to use the more precise term, pre-placement physical examination (rather than pre-employment). This emphasizes the con-

* From an AMA research report entitled *Handbook of Personnel Forms and Records*, now nearing completion and tentatively scheduled for publication in May.

cept of selective placement and does not have the misleading connotation of an examination primarily aimed at excluding people from jobs.

Where there is a follow-up medical program in a unionized company, references to it may be made in the union agreement. For example, employees may be required to take a physical examination upon return from illness or leave of absence lasting more than a specified period of time to determine their physical fitness; or the agreement may specify the company's right to require the employee to have a physical examination by a mutually acceptable physician at company's expense at any time; periodic examinations may also be required on hazardous jobs or on jobs affecting public health and safety. As a safeguard for employees, the contract may contain a clause permitting the employee's personal physician to obtain a copy of the report of examination made by the company's doctor, or even a clause providing for arbitration by a third doctor if there is disagreement between the employee's physician and the company's physician concerning the individual's physical fitness for his job.

Trends in Auto Mileage Allowances

HOW do you reimburse employees using privately owned automobiles for business purposes? NOMA asked that question of 145 companies in eight major cities (Boston, Philadelphia, New York, Cleveland, Detroit, St. Louis, Cincinnati, and Kansas City), then compared the answers obtained from 82 companies in three cities in 1945. Of course the samples are not closely comparable. But with major emphasis on the 1948 replies, a limited indication of trend is discernible, along with a clearer picture of today's practice:

1. A flat allowance per mile plan plus added reimbursement for parking, storage and toll charges is favored by eight of 10 companies reporting in 1948.
2. Seven of 10 companies paid 6 cents or more per mile. This represents approximately a 40 per cent increase in this group since 1945.
3. While more than four of 10 companies reported an adjustment upward in their reimbursement pattern since 1945, one-fourth made the change in the last year. Six per cent are currently planning increases.

The modal rate of 6 cents per mile compares with the 1945 mode of 5 cents per mile.

While only 10 per cent of the companies reporting in 1945 paid 7 cents per mile or more, 29 per cent were in this group in 1948. Where only 23 per cent of the companies paid 6 cents or more in 1945, 71 per cent were in this group in 1948.

Separate reimbursement for parking, storage and toll charges was made by 81 per cent of the companies paying less than 6 cents per mile; 75 per cent of those paying 6 cents; 78 per cent of those paying 7 cents or more. In 1945, 69 per cent paid toll charges, 55 per cent paid parking fees, and 33 per cent paid garage storage.

Other plans favored by 15 per cent of the companies included flat allowances per day, week, month or year; reimbursement for actual expenses and various combinations of flat rates with mileage allowances.

No uniform pattern was observable in the 6 per cent making a sliding scale allowance in 1948 (4 per cent less popular than in 1945).

—VAUGHN FRY in *NOMA Forum* 7/48

Flu Prevention Project

A "flu" prevention project has been undertaken at Gulf Oil refinery in Port Arthur, Texas, as a result of a 1948 test program of influenza inoculations which reduced cases by one-third. In the 1948 test, 3,400 or 68 per cent of workers at the refinery volunteered to take the injections. The number participating to date in the current program indicates that an even larger group will be inoculated this year. Results of preventive measures for 1948 showed that from January through May, 1948, there were 139 cases as against 262 for the same period in 1947. Working days lost for the former period were 1,590 as against 2,528 in the 1947 period. Inoculations are made by the head of the refinery medical department, his associate, and a nurse.

—Mill & Factory 2/49

Production Management

Transportation Pattern Changes

COST-CONSCIOUS shippers are threatening to make over the U. S. transportation system. Since the big postwar jumps in railroad freight rates, they have been switching more and more of their traffic to trucks or water transport. As a result, the rails have been losing ground competitively, though they have had more tonnage than they could handle.

Already the shift has been big enough to make a real difference in future traffic patterns. And shippers swear that if rates go up again, still more traffic will quit the rails.

Since the end of the war, railroads have boosted their rates about 44 per cent. Now they are asking the Interstate Commerce Commission for another 13 per cent.

Truck rates have risen too. But they have stayed beneath the rails. What's more, many shippers say the trucks give them better, faster service—especially on small lots and short hauls—regardless of cost.

A *Business Week* survey of the traffic managers of big shippers in various parts of the country gives a picture of what is happening:

Take one of the top 10 steel companies, for instance. It says that the combination of higher freight rates and the shift to f.o.b. pricing has knocked the daylights out of its old shipping arrangements. In 1946, about 84 per cent of the steel that this company shipped went by rail. Now the railroads are getting only 60 per cent; trucks take 25 per cent; and about 15 per cent goes by barge. Company officials say the shift to trucks would have been even greater if they had more docks for loading them.

Or take a big midwestern food packing company. It's traffic manager says:

> We are getting better service and saving money to boot. Until 1946 we moved about 15 per cent of our tonnage by truck and 85 per cent by rail. Today 45 per cent goes by truck and only 55 per cent by rail. Within a 600-mile radius of the plant, a good 65 per cent is in trucks.

Only one or two traffic managers complained about the railroad car shortage this year. Most of them said they were getting all the cars they needed. But almost to a man they complained about railroad service and the length of time rail shipments are taking—especially l.c.l. shipments. They concede that the carriers usually can't help it, but they don't like the delays any better for that.

There is a widespread move to set up company-owned fleets of trucks instead of using independent carriers. From a railroad standpoint, this is doubly menacing. Once a shipper gets a stake in his own trucking organization, even a rate cut won't lure him back.

One Kansas City manufacturer estimates he can save $100,000 a year by operating his own trucks. He will keep on using rails for long hauls but plans to shift about four carloads a day of short-haul traffic to a truck fleet of his own.

Another midwestern shipper has worked out an elaborate network of truck routes connecting his plants with suppliers and customers. With careful planning, he can get return hauls for most of his trucks. And this,

he says, cuts his freight charges almost in half.

So far, the shift in traffic patterns hasn't made any visible dent in railroad revenues. But shippers and railroads alike are beginning to wonder uneasily about the future.

If the trucks keep taking an increasing share of the high-value short-haul traffic, the long rail hauls will have to carry an ever-growing share of railroad costs. That could mean still higher rates and then still more shrinkage in traffic.

Nobody knows where a spiral like that could end. Rail executives are keeping their fingers crossed, hoping they will never find out.

Business Week, October 30, 1948, p. 19:2.

What Is An Industrial Engineer?

THE student chapter of the Society for the Advancement of Management at Illinois Institute of Technology recently attempted to define the functions of the industrial engineer. Representative industrial engineers, both consultants and operating men, were contacted to secure the needed information.

A tabulation of the 62 replies gave the following results (the various fields of industrial engineering are listed in order of their importance, with the total number of checks for each subject listed in parentheses):

Wage Standards and Incentives: Incentive Systems (56); Time and Motion Study, Standard Times (49); Wage Payment Practice (47); Job Evaluation (46); Merit Rating (19).

Production: Manufacturing Processes (46); Production Planning and Scheduling (38); Quality Control and Inspection (24); Materials Control, Storekeeping (24).

Organization: Systems Procedures (41); Organization Charts and Manuals (33); Forms Analysis (28); Business Surveys (15).

Finances and Costs: Standard Costs (39); Cost Estimating (35); Budget Preparation and Control (29); Pricing and Estimating (18); Cost Accounting (12); Estimating Service Requirements (11).

Plant Engineering: Plant Layout (46); Transportation and Materials Handling (39); Jig, Tool, Fixture Design (21); Installation and Maintenance (14); Machine Design (9); Fuel, Water, etc., Analysis (5).

Personnel Relations: Job Training (23); Supervisory Training (21); Labor Relations (15); Selection and Placement (13); Profit Sharing (9).

Other Activities: Research and Development (16); Safety Engineering (13); Purchasing (6); Public Relations (4).

Sales: Training and Selection (10); Market Analysis (9); Selling Methods (6); Marketing, Trade Customs, and Standards (4).

Many diversified answers were received to a request to define just what an industrial engineer is. The trend of the replies seemed to center around this principal idea: The industrial engineer is one having sufficient knowledge of basic engineering principles without being completely qualified in the established engineering fields (e.g., mechanical, electrical, and civil) and also having some training in the commercial and management phases of modern industrial organizations.

Layout Preparation Aided by Photostating

PHOTOSTATIC reproductions of both templet master drawings and plant layouts have served to cut drafting time and increase accuracy at Saginaw Steering Gear Division, General Motors Corporation, Saginaw, Mich. Prints of proposed layout, which used to take hours to prepare, are now produced in a matter of minutes.

Flat-scale replicas of all machines and equipment, including allowance for projections and machine travel, are drawn on a master sheet, which is then photographed. Reproductions are made on extra-heavy paper with a gloss finish, so that they can be handled without too much damage, and also can be easily cleaned. The negative of the master drawing, of course, can be used indefinitely. Thus many hours of hand copying are saved.

And increased accuracy is achieved, because all the templets representing a particular machine or piece of equipment are identical.

Together with top management and representatives of other departments, the layout engineer arranges the templets on a floor plan laid out with grid lines to the scale of ¼ inch equals 1 foot. Every fifth line is drawn in heavily for convenience in measuring 5-ft. intervals. The basic floor plans show the building outline and all obstructions such as columns, down-spouts, stairways, and elevators.

Each grid is mounted on a 36x18-in. frame, and represents a section of the plant. When a complete set of these frames is assembled, in correct position, the entire floor plan of the plant is shown.

In attaching the templets to the layout board, pins of different colors are used to identify department or operation.

Once the layout is approved, a photostat is made. Any number of copies can then be issued by running the photostat through a blueprint machine.

—ROBERT E. PARETT in *Factory Management and Maintenance* 11/48

Motion and Time Study Films Available on Loan

THE University of Iowa Industrial Engineering Film Loan Library has been expanded and now includes 65 16 mm. sound and silent films.

This film library was originally established by Professor Ralph M. Barnes for use in connection with his course in Industrial Engineering and Management. Last year over a quarter of a million people viewed these loan films, which are distributed by the University's Bureau of Audio-Visual Instruction.

Because of the many new courses now being given in methods analysis, job standardization, motion and time study, work simplification, and related subjects, there is real need for films of the "before" and "after" type. The University of Iowa films are finding wide use in training programs given by industry as well as those offered by colleges and universities. Incidentally, the Film Loan Service is handled on a non-profit basis, the rental charge being just sufficient to cover the cost of the service.

A copy of Extension Bulletin 631 describing the films may be obtained without cost from: Bureau of Audio-Visual Instruction, Extension Division, State University of Iowa, Iowa City, Iowa.

SPRING PRODUCTION CONFERENCE

The Spring Production Conference of the American Management Association will be held on Tuesday and Wednesday, April 12 and 13, at the Waldorf-Astoria, New York City.

Marketing Management

A "New Look" in Sales Contests

MANAGEMENT thinking with regard to methods of sales promotion is changing. Emphasis today is on "campaigns" rather than "contests." The "up and at 'em" type of promotional activity common years ago, in which volume was the only consideration and losers were humiliated, is outdated. Such are the findings of a recent Dartnell study of the promotional practices of 125 representative companies.

Sales executives are increasingly realizing that a good campaign can do a lot more than merely load the wholesaler or consumer. A contest can be devised to pay an extra dividend, by sending the field sales force a series of constructive sales suggestions, by training salesmen in new or better selling techniques, or by training them to know their products better. The campaign can be employed as a device for sales control, leveling out seasonal selling peaks or emphasizing the importance of selling long-profit items. In addition, contests are being worked out to do such new jobs as recruiting salesmen, training retail personnel, and assuring adequate use of merchandising aids.

If the contest is well run and the men have a good time taking part, results measured on a volume basis may be downright spectacular. One firm's representative reported that a recent contest in his organization boosted sales by 36 per cent over the preceding year, while the industry sales trend was downward; in another company, a recent campaign brought a 35 per cent increase.

In general, the contests studied were built around a theme. Themes selected involve either advancing toward a goal or keeping competitive scores. Among the more common themes used are those from sporting events, e.g., horse races, football, boat races. But the goal is not necessarily a race; this depends primarily upon the way the competition is set up. Cross-country or round-the-world tours are sometimes used where the man is competing with his own record rather than with other salesmen. Such travel themes are particularly appropriate to contests in which the prizes are vacation trips. Another variation of the idea is the contest in which the contestant gradually collects a set of something as he nears his quota. In the "dress up" contests, he earns a wardrobe; in others, he may build a house, furnish a room, etc.

Contributors give a slight edge to cash as an incentive over trips or merchandise prizes. Usual reason given was that cash permitted the winner a choice as to what he would do with his winnings. There is no general agreement on this point, however. Probably the best compromise is to use both, either in the same contest or in successive contests. One firm which uses contests extensively asked its men what types of prizes they preferred. Here is the result, according to a company spokesman:

> Our men voted for cash, groceries, catalog, and meat campaigns in that order. We run a variety of different types of contests as far as prizes are concerned. Our biggest is our silver dollar campaign.

The tendency to devote contest bul-

letins to specific selling suggestions is a marked one. One respondent summed up the majority viewpoint on promotional materials during a contest:

> Our men are a bit too intelligent for pep-talk sales bulletins. Instead we give suggestions based on contest leaders' experience, showing where the potential is.

Follow-ups are vitally important to successful contests. Merely announcing a contest is not enough. Standings of the men, supplementary selling ideas, pep bulletins, and whatever else the ingenuity of the sales manager can contrive, are all necessary to a successful campaign. This point becomes increasingly important the longer the contest is scheduled to run. Another angle to be considered is the value of sending follow-ups to the salesman's home. Not only do the mailings reach him at a time and place which are psychologically likely to make him more receptive, but his wife learns more about the contest. This is probably most important in a contest which offers merchandise prizes; several contributors said they address letters directly to the wives, describing valuable home furnishings which can be won in the competition.

A number of devices were reported in use to prevent a post-contest sales lull. Following are some:

> *Candy company:* After a contest ends, we run the same contest all over again for the men who did the least effective job.
>
> *H. W. Gossard Company:* We usually schedule a contest to end just prior to a new selling season. As ours is style merchandise, the showing of new models helps prevent a lull.
>
> *Universal Life Insurance Company:* We usually follow a contest with a short, odd contest. In addition, we set up the results achieved during the contest as standards and then educate the men on living up to these standards.

There are also legal aspects of sales contests that should be considered. One hinges on the interest the Bureau of Internal Revenue has in such contests. Theoretically, under the income tax laws, a cash prize is treated as part of regular income and a merchandise prize, valued at what it would cost if purchased from a recognized dealer, is also considered taxable income. In actual practice, a contestant who wins a toaster is very unlikely to get into trouble for not declaring it. However, such elaborate awards as automobiles or homes are likely to attract the eye of the Treasury Department. Five contributing companies said that a sum sufficient to cover the tax was included with cash prizes.

The Federal Trade Commission, too, is interested in contests—those sponsored by a manufacturer for employees of distributors and dealers. In late 1947, on complaint of a competitor, the Commission moved against one company on the ground that its contest for dealership employees resulted " . . . in general deception of the consuming or purchasing public in that there is and has been concealed from the consumer, who looks upon a salesman as one who will give impartial advice, . . . the information that said salesman is being and has been subsidized . . . in connection with his sales methods and activities." The firm withdrew the contest and FTC withdrew its complaint, so that no court decision has been made on this point.

It is probably as a result of the present uncertainty regarding the legality of such contests that few of the firms surveyed are currently engaging in activities of this type at the distributor-dealer level. This however, is not a situation which can be expected to continue. One firm, incidentally, is planning to adapt the old interior decorating trick of emphasizing a feature of a room which cannot be hidden. The management is consider-

ing a distributor contest in which the widest possible consumer-level publicity will be given the fact that the company is sponsoring a competition. Certainly FTC, by its own wording of the complaint, should have no objection to such an arrangement.

From *Successful Sales Contests: Part One*. The Dartnell Corporation, Chicago. 24 pages.

A Picture of Today's Sales Executive

THE average American sales executive is a comparatively young man who occupies a policy-making position in his company and entered selling between 1925 and 1935, attaining his present job after about five years of sales work. This composite picture of the sales executive emerges from a study recently issued by the National Federation of Sales Executives,* an organization representing more than 10,000 individuals and companies employing nearly 2,000,000 salesmen. The report is based on a survey of a cross-section of the members of the Federation, including more than 53 per cent of people in top positions in their companies; about 47 per cent of those covered are district managers, branch managers, or directors of advertising, merchandising and publicity.

More than 87 per cent of the sales executives were graduated from high school, and 75 per cent attended college. Almost 7 per cent took postgraduate studies.

In his college or university, the sales executive majored in economics in more than 24 per cent of the cases. English represents the next most important subject, taken by 15 per cent of the college-educated sales executives. Next in importance are business administration, engineering and mathematics, with about 11 per cent each. Thus liberal arts account for the largest grouping of majors, which total 39 per cent. However, in 50 per cent of the cases the sales executive was working toward a B.S. degree, while only one-third of the future executives received B.A. degrees.

More than 27 per cent of the sales executives list themselves as owner or partner, president or vice-president, of their firms. In another 26 per cent of the cases, the sales executive holds the title of sales manager. The other 47 per cent of sales executives covered include those not holding top responsibility in their companies. In this group are district managers, branch managers and directors of advertising, merchandising and publicity.

More than 37 per cent of the sales managers are in the 35-45 age group. Another 25 per cent are between 45 and 50, and about 10 per cent are below 35. This leaves only 28 per cent of the group in the 50-and-over age bracket.

More than 43 per cent of the executives surveyed earn more than $15,000 a year. More than 11 per cent earn more than $30,000, and—at the other extreme—only 5.4 per cent earn less than $6,000. Altogether, only 27 per cent earn less than $10,000, and another 30 per cent are in the $10,000-15,000 salary bracket.

The sales managers surveyed said that company sales training courses and sales meetings were the most important factors in their business education. Next in importance, they listed business experience and field training.

The survey also reveals that only 27 per cent of the executives definitely planned a career in the sales field before entering active business. A total of 47 per cent entered selling after having started another career, and the remaining 26 per cent just "happened" to find themselves in sales work.

*** The study was undertaken by Dr. Brooks Smeeton of the Department of Marketing, University of Notre Dame, and issued under the title, *Portrait of a Modern Sales Executive*. National Federation of Sales Executives, New York, 1949. 16 pages. 25 cents.**

• TRADE SHOWS AND EXHIBITS have been absorbing an ever-increasing part of the industrial promotion appropriation, according to William A. Marsteller, President of the National Industrial Advertisers Association. Under today's conditions it is not unusual for an industrial advertiser to devote up to 15 per cent of his budget to this purpose, whereas prior to the war only a few advertisers spent as much as 10 per cent of their budgets for participation in such activities—this figure being exclusive of the salaries, traveling and other expenses of salesmen involved. In one recent show which about 2,000 distributors attended, total cost of space to participants was approximately $2,000,000.

Controlling Distribution Costs

MOST sales managers will find a stimulating challenge in the examples of cuts in sales costs presented below. You may find some of the following figures hard to believe—but they point the way to similar savings in your operations:

A detailed analysis of costs showed one company that 42 per cent of its accounts were unprofitable, adding only 10 per cent to total sales volume. These customers were dropped gradually. Result: Marketing expenses were cut from 22.8 per cent of sales to 11.5 per cent. A 2.9 per cent net loss on sales was changed to a net profit of 15 per cent.

A wholesaler, determined to lick the small order problem, found it was costing him an average of more than $14 to fill orders. With his gross margin averaging 17 per cent, he was losing money on sales under $85. By concentrating sales efforts on personal contact, particularly on larger accounts, and discouraging small phone orders, a 20 per cent reduction in sales costs was achieved in less than two years.

Through an on-the-spot analysis of delivery operations and costs, a large oil company found that orders for 100 gallons of gasoline could be delivered for 1¼ cents a gallon but 50-gallon deliveries cost 2⅓ cents. Cost of a 1,000-gallon delivery was only ¼ cent. Persistent sales efforts enabled the company to increase the average size of deliveries by over 150 per cent, reduce the number of bulk storage plants by 40 per cent. Result: A $2 million saving in marketing costs each year.

Every company can gain such dollars-and-cents benefits from a searching analysis of distribution costs. A step-by-step procedure is detailed below. Like most things that pay off, it isn't simple but it will more than repay your effort.

Your sales and distribution costs can be analyzed in several ways, for example: (a) by product or product lines, (b) type of sales outlet, (c) size of customer accounts, (d) size of individual orders. Don't try to tackle more than one or two such classifications to begin with. The groundwork done on the first job will greatly simplify subsequent analyses—and you won't be complicating the task by trying to gear the figures to too many objectives at the same time. In most cases, it is useful to start with an analysis either by size of accounts or by products.

If you begin your analysis of distribution cost by the amount of business done with each customer or group of customers, follow this four-step procedure:

1. List all expenses which arise from distribution activities, in whole or in part. The ledger accounts themselves will indicate many of the expenses to be included (such as sales salaries and commissions, warehousing, advertising, branch office costs). Less obvious but equally important are expenses only partly attributable to distribution (such as a portion of executive salaries, certain professional services, rent, light, heat in the general offices, depreciation and maintenance on equipment used in whole or in part by the sales division).

2. Combine the individual expense items or ledger accounts into groups according to the major distributive functions for which they are incurred. In the typical manufacturing business, for instance, these functions might

include: Direct Selling, Branch Office Overhead, Sales Management, Advertising and Promotion, Order Servicing, Packing and Shipping, Finished Goods Warehousing, Home Office Overhead, Billing, Collection, Product Warranty and Service. Depending on your particular operation, you may not need some of these functions; on the other hand, you may want to add others peculiar to your business.

In setting up your functional groups, be sure all expenses included are closely related and vary according to the same factor of measurement (basis of allocation). Thus, salesmen's salaries can be safely combined with rent paid for their offices. On the other hand, it would be incorrect to combine billing and collection expenses. Billing costs generally vary with the number of invoice lines, while collection costs more closely follow the number of separate invoices.

3. Allocate the costs of each function to the different customer groups. A simple procedure is to assign to each customer or group of customers that portion of the functional costs for which they are responsible, or from which they have benefited. For instance, packing and shipping costs will usually be assigned on the basis of the weight or number of shipments. Direct selling costs will usually be allocated in proportion to number of calls made on accounts or other services rendered to them. Advertising costs will normally be distributed on the basis of sales billed to each group of customers.

Two cautions must be observed in this connection: (a) Different distribution cost studies may require a different basis for allocating the same functional cost groups. Thus, if you're studying profits by products, Order Servicing costs (in the office) can be accurately prorated to the individual products on the basis of number of invoice lines of each product; but if you're making a profit analysis by customers, the Order Processing costs will vary more closely with the number of orders received from each customer. (b) Usually, since you're interested in relative profits, it's well to omit the costs of an an entire function rather than use crude guesses where no reliable measurement factor exists for allocating costs. For example, Finished Goods Warehousing costs are little influenced by the activity in individual customer accounts and should not be allocated on any basis when you are analyzing profits by customers.

4. Determine net margin by deducting total allocated costs from gross margins.

When you have gathered all this basic information, you'll find it easy to set up similar comparisons for different sales territories, for different products and lines, individual salesmen, etc. These schedules will furnish you with dollars-and-cents figures on costs and profits for each segment of your sales. The next step is to evaluate the figures in the light of your company's marketing and merchandising programs.

Distribution Report, Research Institute of America, Inc., September 21, 1948.

• DISSATISFACTION WITH THE WORLD in which we live, and determination to realize one that shall be better, are the prevailing characteristics of the modern spirit.

—G. Lowes Dickinson

Jack and Jill Fill the Till

A NEW YORK man, for years engrossed in his dressmaking business with a $1,000,000 a year turnover, discovered with some astonishment recently that his only child had reached the ripe old age of five. High time, he thought, to get her views on his chief product, an inexpensive child's frock of simple design.

"I won't wear this, Daddy," she cried. "It doesn't have pockets like the big girls' dresses have!"

Doting Daddy indulgently ordered a couple of simple patch pockets added to the garment at a trifling cost. Sales skyrocketed overnight.

The story went the rounds of the trade and the tycoons nodded sagely. Many a fortune, they remarked, had been made through such simple, chance devices. They'd long known the importance of youngsters' attitudes in the success or failure of their products.

But it's only in the past few years that American business as a whole has awakened to the fact that Junior and Sis together can make—if not break—an industry. In a nutshell, there are approximately 28,280,000 boys and girls between the ages of eight and 20 in this country, and they spend directly, out of their own pockets, some $4,500,000,000 a year. This means that each has pocket money, earned or given by parents, averaging $3 a week.

More important is the fact that they influence the spending of family funds conservatively estimated at $20,000,000,000 a year and upward. There is a bonanza beckoning to the new gold rush of '49—twentieth century version.

At present more than $8,000,000 a year is being spent on the better-known radio programs directed exclusively to children. Many times that amount goes for programs slanted to both children and grownups.

Careful surveys reveal that teen-age daughters are spending about $35,000,000 a week out of the family food budget. Almost 90 per cent of them do the daily marketing—and a goodly percentage of them admit to padding Mother's lists with items of their own choosing.

Authorities say a good 75 per cent of family automobiles, exclusive of those used partially for business, are bought on the preferences of teen-agers.

To get the specific facts on the juvenile buying power, Archie Comics Publications, Inc., recently had the Gilbert Youth Survey Organization of New York make a study which turned up the information that American children each week consume 230,000,000 sticks of gum, 190,000,000 candy bars, 190,000,000 ice cream bars and 130,000,000 soft drinks. Some youngsters were found to be eating 50 candy bars a week. Among all those surveyed by the Gilbert outfit, one case of sales resistance was found. A six-year-old boy said he listened to the radio once upon a time, then thoughtfully added: "It got so silly I quit."

Now that the bonanza of the youth market has been discovered, Big Business is going after it. Every major New York department store has floors assigned to teen trade. In other cities, even more elaborate appeals are being made. Two Memphis stores have cashed in by setting up youth clubs in soundproof rooms where parents are barred and the youngsters can freely take down their hair. Some stores have gone further and set up "swoon rooms," "trysting trees," and other rendezvous for juvenile customers, with young women as hostesses. Perhaps the most elaborate bait of all is set out by Robert Simpson & Company of Canada, Ltd., where 10,000 boys and girls have attended a single dance. The company provides dance orchestra for 50 teen-age clubs in the Toronto area with a total membership of 30,000.

—PETER J. WHELIHAN in *Nation's Business* 10/48

AMA PACKAGING CONFERENCE AND EXPOSITION

The 18th National Packaging Conference and Exposition of the American Management Association will be held on Tuesday, Wednesday, Thursday, and Friday, May 10-13, at The Auditorium, Atlantic City, New Jersey.

Financial Management

Straight-Line Depreciation—A Frankenstein's Monster?

MANY manufacturers know there is something inherently wrong with our present practice of charging depreciation for tax purposes. But few are as yet sufficiently aware of exactly what is wrong to realize that this practice is not only bad from the standpoint of its results but also completely indefensible from the viewpoint of fundamental economics. Attempts to liberalize present depreciation practice are foredoomed to failure, therefore, until it can be proved economically unsound to use straight-line depreciation at rates based on full-service lives. Until then it will be easy to attack arguments for higher depreciation rates as merely another attempt to decrease taxes.

Implicit in present depreciation practice is complete disregard for the sort of service rendered at various stages in the life of depreciable assets, and of obsolescence, whether actual or prospective. The Treasury considers the effect of obsolescence only in ending the life of an asset.

The avowed purpose of permitting depreciation deductions on income tax returns is to allow the taxpayer to recover tax-free his investment in depreciable assets. It is obvious that such investment can be recovered only during the period in which operations of the asset are profitable. Nevertheless, present Treasury practice assumes that obsolete or stand-by assets can earn a recovery of their investment to the same extent as when they were new and modern and being used continuously. As a result, manufacturers often require that the machines they purchase pay for themselves in five years or some such period shorter than their average service lives.

When the Revenue Act of 1934 was being considered, a proposal was made to reduce all depreciation rates arbitrarily by 25 per cent for 1934, 1935, and 1936, to increase taxes by about $85 million per year. The Treasury opposed this arbitrary reduction as unsound, countered with an offer to take steps to reduce rates without making a change in the law. It then issued Treasury Decision 4422 and Mimeograph 4170, which, with some revisions, are still the basis for charging depreciation on federal income tax returns. Fundamental requirement is that the annual depreciation must not exceed the amount calculated by using straight-line depreciation with rates based on full-service lives.

The following example is oversimplified, but it brings out some of the points to be understood in order to perceive the inherent unsoundness of this regulation: The asset under consideration is 10 years old. Its only value for any other purpose is its scrap value, which is barely equal to the cost of removal. Original cost was $20,000, and depreciation was limited to $1,000 per year based on a 20-year estimated life. Prior to TD4422, it would have been depreciated at the rate of 10 per cent per year.

The asset is adequate for its purpose, but a more modern machine is on the market for $30,000, which would effect savings in operation and maintenance

of $4,200 a year. Now, the new asset must be recovered from the annual savings in not more than 10 years, plus a return of 8 per cent per year on the average investment, which will be $15,000—or half the initial investment of $30,000. These charges of $3,000 depreciation and $1,200 interest exactly equal the annual savings promised by the machine.

Two things are clear: One, there is absolutely no advantage in risking an investment of $30,000 just to break even. Two, the present asset has become so obsolete by comparison with its modern substitute that it can no longer earn any part of its own original investment. Thus taxable profits during the first 10 years of life were $10,000 more than real profits, and the company has paid taxes at rates as high as 85.5 per cent on this $10,000. True, this overpayment of taxes may be offset by a tax reduction in future years, but this is cold comfort. There may not be any profits during certain of the next 10 years.

On the other hand, if the company charges more depreciation when calculating its stated profits than it is allowed for tax purposes, it is apt to be accused of understating its real profits. Or if the company should retain certain profits after taxes so as to protect itself financially, it may be penalized under Section 102.

The straight-line depreciation rates in effect prior to 1934 were in general considered fair and workable. But there is another and better method from the standpoint of writing off the asset at about the same rate as it loses in ability to earn its depreciation. This is the so-called *declining balance method,* in which a constant annual depreciation rate is employed, but the depreciation for any given year is determined by multiplying the undepreciated balance remaining at the beginning of any year by this constant rate. Thus the depreciation is greatest in the first year and decreases each year thereafter. The book value, or the depreciated balance, never reaches zero.

For the past several years the Treasury has approved the declining balance method, but only if the rates do not exceed 150 per cent of the corresponding straight-line rates. With this limitation, the declining balance method is even less practical than the straight-line method because only a little more than half the investment is written off during the first half of life and there remains an undepreciated balance of about 20 per cent at the end of life. On the other hand, very satisfactory results can be obtained in most cases through use of the declining balance method at the rate of 250 per cent of the corresponding straight-line rate.

It should be possible in the future to persuade the Treasury that such a rate is reasonable. In general, it writes off a little less than half the investment in the first quarter of life, a little less than three-quarters in the first half of life, a little less than seven-eighths in the first three-quarters of life, with a remainder of about 7 per cent at the end of full life.

To permit taxpayers the same leeway in setting their depreciation rates that they enjoyed prior to TD4422 would almost certainly decrease business taxes by several billion dollars annually over the next couple of years. Unless this change could be justified to the general public as economically sound, it would almost certainly lead to the charge that business was attempting to reduce apparent profits and

thus reduce taxes through excessive depreciation. Even so, high government officials admit that the present practice is apt to have bad results because it discourages investments that would otherwise be made—investments which are desirable from the viewpoint of the general public. However, business fears incentive taxation, and proposals made on such grounds, rather than on the ground of economic soundness, are not likely to be completely effective.

There can be no doubt that present Treasury depreciation practice has intensified the effects of the present inflation where replacement of depreciable assets is concerned. Our present inflationary situation is the best reason in the world why the taxpayer should be given the greatest possible latitude in the timing of his deductions for such factors as depreciation. However, though it is especially troublesome at this time, the present inflationary situation is merely one more strong argument for changing the current rigid Treasury depreciation practice.

By Paul T. Norton, Jr. *Mill & Factory,* August, 1948, p. 93:6.

New Employee Savings and Stock Bonus Plan

SOME 76,000 (44 per cent) of the employees of General Electric Company are currently participating in GE's new employee savings and stock bonus plan, according to a recent statement by a company official. Inaugurated October 1, 1948, the plan provides that employees who by payroll deductions subscribe for the purchase of U. S. Savings Bonds, Series E, are eligible for payment by the company of a 15 per cent bonus of GE stock on the cost price of bonds purchased by the employee. The maximum deduction for purchase of bonds, upon which stock will be applied, is $10 weekly or $43.75 monthly.

Payment of bonus is contingent upon the employee's leaving the bonds on deposit with the company for five years following the end of the year in which the bonds are purchased. The first five-year "holding period" during which the bonds remain on deposit commenced January 1, 1949. Five years from that date, employees remaining in the plan will receive the 1948 bonds, the GE stock bonus, and the accumulated income on the stock.

The maximum allowed contribution of the company to the plan for any single calendar year is $4,500,000, to be paid in the form of GE stock. Employee subscriptions are limited to $30,000,000 a year. In the event that the cost price of bonds purchased under the plan were to reach the $30,000,000 mark before a calendar year ends, the company will suspend further deposits of bonds under the plan for the balance of the year, and commence depositing again at the beginning of the following year. Any bonds purchased by employees through payroll deductions following suspension of the bond deposit will be delivered to the employee.

Accounting Trends in Annual Reports

INDUSTRIAL corporations in the United States reported increased use of the Lifo method of determining inventory costs in annual statements for fiscal periods closing within the 12 months ending June 30, 1948, according to the American Institute of Accountants.

In its second annual survey of company financial reports, results of which were released recently under the title of *Accounting Trends in Corporate Reports,*

the Institute examined 525 annual reports, combined with excerpts selected from 400 others, for fiscal years closing between July, 1947, and June 30, 1948.

The published study shows an increase of 16 per cent in the number of annual reports indicating use of Lifo, noting the number of companies using the method as rising to 92 from 79 in a one-year period, with the increase noted particularly in the meat-packing, steel, and oil industries, and in retail trade. Eight companies noted as previously using Lifo are reported as extending their use of the method.

The majority of corporations avoided changes in traditional accounting policies with respect to depreciation, the report states. Statistics cited show that, among 525 annual reports studied, in only 11 cases do auditors' reports state that clients deviated from generally accepted accounting principles in reporting on depreciation.

Revealed also by the study is the fact that reports examined gave more information than in the previous year about how much of the sales dollar was used in wages and other benefits to employees. Formerly, such information was generally found in narrative and supplementary material accompanying certified financial statements, but an increased number of reports in 1948 showed the amount of employment costs in their certified income statements. In connection with items relating to wages and salaries, it is reported that supplementary information was provided by means of uncertified statements, pie charts or graphs in 174 reports, as against 122 for the previous year.

Indicating that in the majority of reports examined the multiple-step form of income statement was generally used, the Institute also noted a trend during the year toward the single-step form, and toward variations of that form. The study indicates that all companies which had disclosed the sales figure in the previous year did so in the latest reports examined. Seven companies which had not previously disclosed the amount of their sales changed their policy.

Reporting changes intended to make financial information in the balance sheet more understandable, the study showed that, in addition to various substitute titles for the term "balance sheet" and changes in the manner of presentation, 33 companies changed the terminology used for "earned surplus." A large number of companies are reported as having disposed of their marketable securities, "probably as the result of the need for cash resulting from increases in the price level."

The Stockholder and the Auditor's Report

The Post Office will shortly complete its annual task of distributing millions of copies of corporate financial statements to stockholders. Each statement will contain, somewhere, hidden away or prominently displayed, an auditor's report. How many stockholders will read these expressions of opinion, or reading them, will understand their significance?

That is a real question. During the past 10 years, there has been a growing tendency to dress up annual reports, to make them more informative, more readable. With this goal no one would quibble. The presence of the auditor's report is often overlooked, however; and, when it is mentioned, its significance is seldom explained.

Some have suggested that it would be helpful if management, in the text of its message, would call attention both to the auditor's report and to its meaning. A few companies already make it a practice to note the presence of the auditor's report, and some make more extended comments. For example, a company in the milk business, in a long explanation of how its annual report is prepared, remarked:

> Then there are the independent certified public accountants, whose job is to review and verify the work of our own men. The CPAs make certain that approved accounting practices and the regulations of the Federal Securities and Exchange Commission are followed. If, in the CPAs' opinion, our report fairly presents our company's financial condi-

tion and operating results, they issue a certificate, such as appears on page 18, as evidence of their approval.

A somewhat different approach was used in an annual report made by an automotive company. The opening sentence of the letter said:

> The annual report of (our company) and its subsidiaries for the year 1947, including the financial statements and the opinion of our independent public accountants, is respectfully submitted.

The foregoing statements make it quite clear that, even when management calls attention to the work of the CPA, the reference made is likely to vary considerably. It would be impossible, of course, to draft any one statement which would meet with general acceptance. It is possible, however, to indicate some of the principal points which a management statement about the auditor's work might cover. There are at least three:

1. The presence of the auditor's report means that management has had its own statements checked—independently and impartially—by a certified public accountant.

2. The auditor, an expert qualified to express a professional opinion, has satisfied himself that the facts justify his opinion.

3 The auditor, unless he makes exceptions, stakes his professional reputation on the opinion that the financial statements do fairly present the financial position and results of the operations for the period covered, in accordance with generally accepted accounting principles.

One version of a management statement covering the essentials of these points might be written as follows:

"Attention is invited to the fact that the financial statements in this report have been audited by the firm of Blank and Blank, Certified Public Accountants. Since the significance of the auditor's report is not always understood, a brief explanation may be helpful.

"When management reports to its stockholders, it is doing more than merely reporting essential facts; in a larger sense it is giving an account of its stewardship. Obviously this calls for impartial evaluation of methods, records and results; just as obviously this calls for independence and objectivity.

"This is why audits are commonly made by certified public accountants, whose opinions, unless exceptions are made, show that their audits have been carried on in accordance with generally accepted auditing standards and that the statements themselves were prepared in accordance with generally accepted accounting principles.

"This arrangement under which management's reports are independently audited by others not only gives management an impartial check on its own methods and procedures; it also satisfies the requirements of stockholders, banks and other credit grantors, financial analysts, government agencies, and the investing public generally.

"Questions of judgment, opinion and critical evaluation enter into accounting at many points. It is suggested therefore that the auditor's report be read with care. His report represents the considered view of a responsible, independent expert, who has examined the facts, and whose report is made in accordance with standards accepted wherever business is carried on."

For those who like their prose shorter, a simpler version, based on the approach used in the Institute pamphlet called *What Does an Auditor's Certificate Mean* might be written as follows:

"Your attention is invited to the auditor's report on page —. The opin-

ion of our certified public accountants is important, for it is the opinion of experts in accounting and auditing who are independent of the management and professionally responsible for what they say. Their opinion is based on adequate examination of the facts and an evaluation of our company's use of generally accepted accounting principles, consistently maintained."

It is not our purpose here to propose exact texts, but rather to indicate the utility that lies in management statements which call attention to the significance of the auditor's report. Obviously members of the accounting profession would benefit, for such statements would serve to create a broader understanding of the accountant's function. However, no one should overlook the allied advantages which would accrue to management. The evidence is all too clear that many laymen do not wholly accept the validity of corporate financial statements. Pointing out that these statements have been audited by independent, impartial, certified public accountants could go far to help gain wider public acceptance for what management has to say.

The Journal of Accountancy, November, 1948, p. 1:2.

Insurance

Some Observations of an Insurance Buyer

By RAY S. BASS
AMA Vice President in Charge of Insurance
and
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A. E. Staley Manufacturing Company

WE often hear complaints that insurance companies are not progressive, that they still offer antiquated coverage at unjustified rates, that they elude personal contacts with placers of risks—as a result, failing to understand buyers' problems—and that every risk covered must come within the scope prescribed by the manual. There may be some grounds for such complaints, but I believe generally the insurance companies are trying to improve their coverage and furnish the buyer with his requirements.

The Insurance Division of the American Management Association and insurance buyers' associations have done much to bring the buyers' needs and desires to the carriers' attention. They have sought to protect the interests of the insurance purchasers by: (1) promoting sound principles and practices that will lead to comprehensive, yet simplified and economical, insurance protection and loss prevention; (2) disseminating timely and reliable information, derived from research and discussion, on all the problems affecting the scope or cost of insurance; (3) aggressively presenting the insureds' viewpoint to all groups engaged in insurance underwriting and supervision.

From an address before the Insurance Federation of Illinois (as digested in *The Insurance Buyer,* February, 1949).

Some of the resulting developments have been broader contracts and new coverages.

The Boiler and Machinery underwriters have brought forth not only the group coverage plan and premium gradation but also a streamlined coverage which, when applied with judicious use of the deductible clause, provides the complete inspection that is desirable and the loss payments that are necessary.

In the field of Fidelity Insurance, the introduction of commercial blanket bonds, and the packaging of other crime coverages with dishonesty under the Three-D (Dishonesty, Disappearance, and Destruction) policy, and the Comprehensive Crime form, have given the buyer a much better opportunity of providing against unforeseen losses—the whole reason for insurance.

Recent years have seen various premium plans developed by the companies on Workmen's Compensation insurance. The Guaranteed Discount Plan and the various Retrospective Rating plans offer a wide choice for the insured.

The elimination of overtime premium pay and earnings in excess of $100 per week from the calculation of premium has resulted in a slight economy to the insured. If it were not for the auditing difficulties involved, it might be more sound to base the premium on the hours worked rather than on wages, especially since most wage rates now paid exceed the base on which maximum benefits are determined by state laws.

The development of Comprehensive Liability combined related risks including elevator liability, owners' liability, landlords' liability, teamsters' liability, side-track agreements, etc. This was an accomplishment of merit, as is the development of the personal liability policy.

Comments could also be made on favorable developments in fire and extended coverage, automobile, public liability and property damage, and the various other branches of insurance, but there are other elements unfavorable from the buyers' viewpoint, discussion of which may provoke thought and remedial action.

The writing of Multiple Location Contracts, for example, is causing placers of risks lots of grief. There are criticisms that some insurance companies have recently assumed an arbitrary attitude (using the fear of new rating laws as an excuse) and are apparently not cooperating to better the rating and underwriting situation.

There have been numerous suggestions, such as that of making I.U.B. advisory rather than a rating organization. This suggestion was bitterly debated before the National Association of Insurance Commissioners in Philadelphia last year, and finally dumped down the sewer. The Insurance Company of North America filed its own temporary or interim plan, as did the Pearl Assurance Company. Judge Elmer Warren Sawyer, as counsel for the Insurance Brokers' Association of New York, submitted to the New York State Legislative Committee a proposal to amend the New York Insurance Law to permit modification of rates "by underwriting judgment . . . to the extent that such conditions—size of risk, location, and other factors —may reasonably be expected to have an effect upon the losses or expenses and are not measured or are inadequately measured by the standards of a rating plan applicable to said risk; and rates so further modified shall not

be deemed unfairly discriminatory."

The Insurance Buyer, commenting on Judgment Underwriting (page 4, January, 1949), said: "The equity of such a rating method rests not so much on exercises in pure logic as on the facts of life. These facts—rather simple to grasp . . . which were not invented by persons with malice aforethought, but . . . are as elementary to insurance principles as the cosmic fact of the earth's rotation about the sun—resulted in rating plans refined for individual risks. And such plans helped keep the insurance companies in business or prevent the loss of business to self-insurance plans or to carriers outside this country."

And, with all this, industries having inventories in the several states still have to set up their monthly expense charges on their own estimated rates, since only binders have been issued.

The biggest bottleneck of the insurance industry is Multiple-Line Underwriting. Industrial placers of risks, through their local groups as well as their national organization, have expressed a desire for this. The charters of some companies provide for Multiple-Line Underwriting if state laws could be amended to permit it, while other company charters would have to be revised. I believe the insurance industry, in its endeavor to serve, could solve the problem by carrying the ball and running the defense in getting proper state laws to permit Multiple-Line Underwriting.

Every time the opportunity arose I have always pleaded to keep insurance a free enterprise. In my book, there is no place for the government in the insurance business. Competition has made America great. It has permitted the insurance companies of today to reach their present stature. We have only to consider Rhode Island's experience, and the abuses that have arisen as the result of the enactment of that state's law, to be opposed to such legislation. I am also opposed to laws such as that enacted in California, though that law permits insurance companies to compete with the state. I am not opposed to health and accident insurance, including hospitalization and surgical reimbursement (in fact, I believe it should be available for everybody), but I feel it can be handled by voluntary coverage if the insurance companies promulgate the proper plans and aggressively present the needs. Voluntary coverage has increased over the years by leaps and bounds and, with the growing popularity of group insurance plans, there is not the demand for government insurance at the federal or state level that the proponents of this type of socialism would have us believe. I urge those members of the insurance industry equipped to write this type of insurance to offer adequate coverage on a voluntary basis as quickly as possible to offset the alleged demand; and, more important, I recommend that each person in the industry, both agents and employees as well as employers, learn all the facts and then discuss the problems with their elected representatives, both federal and state.

• FOR $1 IN 1939 you could buy a dozen eggs (39 cents), a pound of butter (30 cents), a sack of 20 oranges (25 cents), and a tall can of milk (6 cents). Today for the same $1 you can buy only a pound of butter (80 cents) and three eggs (80 cents a dozen).

When it comes to fire insurance, however, your dollar's purchasing power is much the same as in 1939. In the past year, a few fire insurance rates were increased in about 12 states —on occupancies in which fire losses had been excessive. But for more than 95 per cent of the policyholders, basic fire insurance rates have not been boosted.

—*Fire Insurance Facts and Trends,* 2/49

Extent of Voluntary Health Insurance Coverage in the U. S.

MORE than 52 million people, or well over one-third of the total population of the United States, are now protected under some form of voluntary hospital expense insurance, while voluntary surgical expense and medical expense insurance plans, newer types of protection, cover approximately 26 million and 9 million respectively.

At the same time, more than 31 million persons, over half the employed civilians in the country, have benefits for loss of income due to disability, the basic type of protection sold by private insurance organizations writing accident and health insurance.

These figures, which represent the number protected at the start of last year, have been announced by John H. Miller, chairman of a committee formed by a number of trade associations of insurance companies which has just completed a survey of voluntary accident and health plans in this country. The findings, which are based on a nationwide analysis, represent the first comprehensive survey of such plans, embracing not only those individuals protected by insurance companies but also those covered by the Blue Cross and all other types of organizations providing this protection.

"These figures demonstrate how extensively the American people have undertaken the job of establishing their own protection, through private channels, against the costs of sickness and accident," Mr. Miller said. "Plans protecting against hospital, surgical and medical expenses have grown up almost entirely in the past 10 or 12 years. The growth of these plans has been accelerated since the end of the war, giving promise that much more nearly complete protection for the population will be acquired on a voluntary basis in the future. The extent of voluntary coverage and the rapid rate of growth shows that private enterprise is well able to meet the public need for this essential protection although, admittedly, much more remains to be accomplished." Existing coverage extends to all income levels of those regularly employed, often with employer financial support.

Detailed figures on a comparable basis for all the 52 million covered by hospital insurance are not available for all types of coverage for past years, but the number of persons covered for hospitalization under group insurance policies and under Blue Cross plans, the principal types of coverage, is 56 per cent greater than at the end of 1945 and 241 per cent greater than at the end of 1941. Surgical and medical insurance plans have been developed more recently than hospitalization plans and are growing at an even faster rate.

The 31 million persons insured against loss of income due to disability actually represent more nearly complete coverage of this need than does the number insured for hospital expense, since protection against loss of income is needed only by those with earned incomes. The coverage, of course, serves to protect those dependent upon the income producers as well as the individuals insured. This protection against loss of income has been sold by insurance organizations or provided directly by employers for a considerable time but has shown a greatly increased rate of growth in recent years. "The extent of this protection," Mr. Miller said, "is evidence that in this field, also, voluntary plans can

adequately insure workers against the loss of income due to disability."

The carriers insuring these people against hospitalization expense include: insurance companies and fraternal societies, with an aggregate of nearly 21 million covered; Blue Cross plans and plans sponsored by medical societies, with 28 million; plans in the bituminous coal and other industries, private group clinics, university health plans and consumer sponsored groups, with an aggregate of more than 3 million.

The surgical benefit plans were written by insurance companies and fraternal societies on more than 15 million persons, with the other organizations insuring 11 million for these benefits. Medical expense plans were written by the insurance companies and fraternal societies on 2 million, by medical societies and Blue Cross affiliates on 3 million, and by the other organizations combined on an additional 4 million.

Benefits for loss of income due to disability are provided for nearly 19 million by insurance companies and fraternal societies; 9 million more are protected by paid sick-leave programs and over 3 million by mutual benefit associations, union plans and other methods.

The Spectator, February, 1949, p. 17:2.

Changes in Management's Insurance Thinking

RISING prices and higher replacement costs are causing companies to increase their insurance far above coverages maintained earlier in this decade. Rises of 50 to 200 per cent in coverage were reported by a majority of the 235 companies cooperating in a recent Conference Board survey.

Over 90 per cent of the firms polled reported that the company's insurance policy is now a concern of top management. Disasters, such as the Texas City catastrophe, coupled with spiraling plant and equipment replacement costs, have had considerable impact on management's insurance thinking. As a result, some companies are revamping established methods of handling insurance.

Less than 4 per cent of the companies surveyed are completely self-insured, because this method is deemed desirable only in the case of large companies where decentralization of operation spreads and minimizes the risk. Approximately a third of the companies reporting stated that they "self-insure only to a limited extent."

The majority of the industrialists surveyed indicated that they review their insurance programs annually. Many reported that such periodic examinations have frequently uncovered considerable savings through revision of present policies as well as the elimination of unnecessary policies covering unimportant risks. Often such savings have been sufficiently high to offset the cost of a broader and more adequate insurance program. Several stated that they have been able to reduce insurance costs through the use of "all risk" or blanket policies.

Explosion hazard, smoking, and general improvement committees are typical of the safety committees organized by many firms. Stationing a safety director at each plant to investigate accidents and hazards and make recommendations for elimination of possible sources of losses is a practice reported by some. Others have rotating safety committees, which continually change membership to keep the whole workforce risk-conscious.

Sick Pay in Industry

WHEN a worker is forced by illness to stay away from his job, he may suffer greater financial loss from interruption in earnings than from the cost of treatment. The need to protect workers against wage loss due to disability is being increasingly recognized. Three states have already enacted laws for compulsory systems of compensation during disability: Rhode Island in 1941, California in 1946, and New Jersey in 1948.

In every state, with or without compulsory legislation, employers realize the need to protect their workers against wage loss during disability, and have extended such protection on a voluntary basis. In general, protection takes two forms: (1) salary-continuance plans (paid sick leave), formal or informal; (2) group health and accident insurance paying regular benefits.

Recently a survey was undertaken to determine the extent of voluntary protection in the State of Illinois. A questionnaire was mailed to almost 45,000 employers, that is, all those covered by unemployment compensation, and 9,767 returns were received, reporting 817,679 employees, or about one-third of total covered employment in the state. From the information gained in this survey, an attempt is made here to estimate coverage under voluntary plans of this type: (1) in Illinois, (2) in 10 industrial states, (3) in the nation as a whole.

Of the total of 9,767 employers reporting, 4,181 or 42.8 per cent stated that they continue to pay employees during absences due to illness. But out of 817,679 workers indicated in the returns, 304,511, or only 37.2 per cent, are thus covered. The difference between the percentages of employers and workers is due to the fact that frequently paid sick-leave plans are confined to office or salaried employees and do not include factory or hourly-rate employees.

By industrial divisions, paid sick-leave plans are most prevalent in the finance-insurance-real estate group, with 71.6 per cent of employers in this group reporting such plans. The smallest percentage was found in the construction industry, where only 9.7 per cent of employers reported sick-leave plans.

By size groups, paid sick-leave plans are most common among the larger companies. Of the firms with more than 1,000 employees, 70.8 per cent reported paid sick-leave plans. In contrast, only 37.8 per cent of establishments in the group with 16-25 workers reported such plans. The cost of paid sick leave is almost always carried by the employer. In 93.7 per cent of the total number of such plans, the employer paid the full cost.

Of all the employers reporting, 2,034 or 20.8 per cent have group health and accident insurance plans in operation. Of the employees shown in all returns, 317,728 or 38.9 per cent are covered.

The largest number of group health and accident insurance plans is found in the manufacturing industry. Of all returns for this industry, 34.4 per cent of firms reported such plans. In contrast, only 5.2 per cent of employers in the construction industry reported this type of plan.

By size group, firms with more than 1,000 employees have the largest percentage, with 63.2 per cent of such firms reporting health and accident

plans. Firms employing 11 to 15 persons have the smallest number, only 12.5 per cent reporting this type of plan.

Group health and accident insurance is usually financed jointly by employer and employee. Joint financing was reported by 45.1 per cent of the firms, while an additional 39.1 per cent reported that the employer bears the entire cost.

The situation in Illinois is probably similar to that for voluntary coverage in the 10 large industrial states which together account for over half the total employment in the nation covered by unemployment compensation: Connecticut, Illinois, Indiana, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Pensylvania.*

In these states, there were about 600,000 employers with some 17,000,000 workers covered by unemployment compensation in 1946. It is assumed that the distribution of coverage for voluntary plans for paid sick-leave and group health and accident insurance is roughly the same as that reported by 9,767 employers in Illinois. If this assumption is approximately correct, perhaps a quarter of a million employers in the 10 states (about 43 per cent of the total of 600,000) have paid sick-leave plans. Of the total of 17,000,000 covered workers, perhaps some 6,326,000 are covered for paid sick leave. Including coverage under group health and accident insurance, it is possible that about 8.5 million workers in the 10 states may receive payment under voluntary plans while absent from employment due to disability.

The projection was then carried further to all employment covered by unemployment compensation in the nation. In 1947, average monthly covered employment for the United States as a whole was about 30,000,000 workers, in 1,150,718 establishments. If the coverage for voluntary plans is close to that in Illinois, then some 492,500 companies have paid sick-leave plans covering 11,000,000 workers. Including group health and accident insurance, close to 15,000,000 workers in the nation are covered under voluntary plans for cash payments while absent from work due to disability.

It may be concluded that, while voluntary coverage is substantial, perhaps extending to half the workers covered by unemployment compensation, there is considerable room for further growth of paid sick-leave and group health and accident insurance. Moreover, there is real need for accurate and detailed information on the extent and development of voluntary plans.

Research Council for Economic Security, 111 West Jackson Boulevard, Chicago, Ill. 10 pages. 15 cents.

*The choice of states was arbitrary. California is left out of the list because cash sickness compensation in that state is compulsory rather than voluntary.

Bulletin Board as an Ice-Breaker

CLERICAL employees at Bigelow-Sanford Carpet Company's New York office get enough background on new employees to give them something to talk to the new girls about. Office bulletin boards list previous jobs, home towns, hobbies, education, any other interesting data about each new girl hired.

—*Modern Industry* 12/15/48

Survey of Books for Executives

Managerial Control of Business. Edited by George T. Trundle, Jr. John Wiley & Sons, Inc., New York, 1948. 408 pages. $5.00.

*Reviewed by Carl Heyel**

Managerial Control of Business provides an excellent over-all analysis and discussion of the problems of managing a business enterprise. Because of the logical arrangement of subject matter and lucidity of presentation, this single volume would be an appropriate text for students of management in upper or postgraduate levels—but that is not to imply that it is too elementary for the mature executive currently engaged in management work, or for the department head who wants to prepare himself for broader responsibilities.

Section 1, "Analyzing the Company's Operations," comprising the first 50 pages of the book, provides a good bird's-eye view of management problems, running the gamut of product-profit relationships, product, sales volume, organization, financial controls, selling, manufacturing, engineering and research, compensation and incentives, costing and pricing methods, and industrial relations.

Thereafter, Sections 2 through 5 discuss separately and in detail (with specific information on important minutiae as well as on general principles) the items touched upon in Section 1. These are grouped under General Management Problems, Sales Management, Manufacturing, and Industrial Relations. All these sections give clear evidences of the engineering background and discipline of the editor and authors: Objectives are clearly set forth, terms are early and comprehensively defined, exposition is lucid, yet economical, and all points developed in the body of the text are concisely summarized at the end of each section.

One point struck this reviewer: Management nomenclature is still far from standardized. Thus, while this book is consistent internally in its terms, it is interesting to note that the concept "administration" is given as simply execution of general management policies, in contrast, for example, to Person's concept of administration as the broad establishment of policies which (operating) management carries out—a terminology, incidentally, employed by this reviewer in his own writings and lectures. This is, of course, a minor point, and is made here merely to emphasize again the desirability of codification and precise definition in the field of management, paralleling a similar exercise of logic in the physical sciences.

George T. Trundle, Jr., has, as head of the firm bearing his name, long been known as a competent professional practitioner of the techniques discussed in this book, which is the result of a happy collaboration by him and eight of his associates. Since it thus represents the distillation of more than a generation of experience "on the firing line," the reader can, with confidence and profit, add it to his management library.

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Counseling Employees. By Earl M. Bowler and Frances Trigg Dawson. Prentice-Hall, Inc., New York, 1948. 236 pages. $4.00.

*Reviewed by Schuyler Dean Hoslett**

The appearance of another book on employee counseling is further evidence that this function, thought by many to be only a wartime phenomenon, is here to stay. This particular book is, to quote the preface, "an answer to the desire of counselors for a handbook written by practical people, in down-to-earth style." It covers considerably more ground than the usual books on counseling, presenting, for example, a section of 30 pages on counseling rehabilitants, veterans, and special groups in industry.

The book is loosely organized. Topics such as tests, exit interviews and qualifications of counselors are treated at several points in the text, to no apparent advantage and with much repetition of the same material. The level and tone of the book are suggested by one of the series of questions which appears at the end of chapters and by a quotation from the text on maintaining "good will." The question: "Is it desirable to have satisfied workers? Discuss." (Page 22) The quotation:

> Only by discretion and tact can good will be established and maintained. Diplomatic grievance handling is a real challenge to all counselors. During the past several years, industry has learned the importance of employee good will. It is wise to maintain this good will at the highest possible level. Production at maximum efficiency and minimum cost is one of the important outgrowths of a good mental attitude on the part of plant employees. (Page 107)

The authors suggest a comprehensive program consisting of five major functions. One is supplying information for workers and management on such matters as wage-payment plans, efficiency ratings, medical care, etc. Counselors are also to assist supervisors with human relations problems such as "eliminating worker irritations," "get-

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ting individuals to work together harmoniously," and "recommending changes in working conditions." Personnel directors will be assisted by counselors on special assignments such as "discovering potential supervisory material" or "determining 'job attitudes' and making suggestions for improvement where needed." Workers are to be "serviced" in such matters as medical appointments, legal services, child care, and health programs. Finally, counselors will offer a consulting service to all plant personnel "suggesting solutions to personal problems," "conferring with executives on personnel problems," "discussing proper personal conduct with workers and foremen," etc. Counselors may also perform some public relations work and execute jobs which we have thought of as technical and specialized: test and attitude survey administration, for example.

These functions (which, as stated, overlap in several respects) add up to a comprehensive program indeed. In fact, the description of counseling in this book sounds more like a statement of a personnel program than a specialized segment of it. In many plants some of the duties prescribed for counselors will be the business of other special groups.

In contrast to much of the recent literature on counseling, the authors of this book do not advocate the non-directive method. They propose a technique which might be termed "semi-directive." The counselor is encouraged to ask questions of the Why, What, Where, When and How variety. "Helpful suggestions presented in a convincing manner and designed to correct any given situation is the goal of the counselor." (Page 105) But the final choice of goals or alternatives offered by the counselor is made by the worker.

This procedure is, of course, contrary to the method of Rogers; it is also contrary to the interviewing rules developed in the Hawthorne experiments. Many students and practitioners of counseling will not agree with the authors, just as many "practical" people have little use for the non-directive technique. To this writer it appears that the time has come to re-evaluate both the semi-directive and non-directive methods. Careful experiments might ascertain in what situations, and under what conditions, modifications of the non-directive approach are beneficial. The authors of this book state a point of view toward counseling without providing experimental evidence to substantiate it. Their discussion of the process of counseling—the development of insight leading to decision—is so slight as not to give any weight to the validity of their thesis. One would at least like to see a fuller, point-by-point analysis of the interview technique they suggest, illustrated with actual cases in verbatim interview form.

One also misses in this book a critical discussion of the several types of employee counseling in use today and of the different purposes they serve, from the strictly therapeutic type at one end of the scale to the information service type at the other. Such a discussion would point up the fact that counseling is, or should be, related to an organization's peculiar need. We should not expect uniformity, but adaptation of program and technique to the necessities of the situation.

Notwithstanding the criticisms made in this review, there is a good deal of useful information packed into this work. There is material on counseling in unions and the use of management-sponsored counseling to eliminate some of the grievances which otherwise might be taken up by unions. The authors suggest that counselors make interpretive reports on personnel problems to management, not just statistical reports of "cases" handled. They recommend a counseling office on the production floor and that the counselor spend much of his time in the workplace. These and other suggestions are very much to the point. The counselor who is looking for suggestions on program execution (but not counseling technique) may therefore wish to refer to this volume.

DICTIONARY OF MODERN ECONOMICS. By Byrne J. Horton, Julien Ripley, and M. B. Schnapper. Public Affairs Press, 2153 Florida Avenue, Washington 8, D. C., 1948. 365 pages. $5.00. This handbook of information concerning the basic terms of business, finance, commerce, and modern economic society belongs in every well-rounded business library.

PROCEEDINGS OF NEW YORK UNIVERSITY SEVENTH ANNUAL INSTITUTE ON FEDERAL TAXATION. Matthew Bender & Company, Inc., Albany, N. Y., 1949. 1,488 pages. $20.00. Important present-day problems of federal taxation discussed by a distinguished group of lawyers and accountants who are acknowledged authorities on specific phases of taxation. Topics treated include: Business Tax Planning; Planning the Handling of Tax Cases; Planning for Capital Realizations; Appeal Practice; Planning for Corporate Distributions; Estate Planning; Tax Planning for Individuals and Partnerships; Planning for Corporate Reorganizations; Miscellaneous Planning.